



Final Report

Assessment of Public Financial Management in Barbados using the PEFA PFM Performance Framework

By

Mr. John Wiggins

and

Mr. David Biggs

This project is executed by the Framework Contractor for Lot 11:DFC.

The views expressed in this report do not necessarily reflect the views of the European Commission.

Currency and indicative exchange rates

Local currency unit = Barbados Dollar (BD\$)

1 EURO = BD\$2.50 (May 28th, 2010)

1 US dollar = BD\$ 2.00

Fiscal Year

01April -31 March

Abbreviations and Acronyms

AGA	Autonomous Government Agency
AGD	Accountant General's Department
BAO	Barbados Audit Office
CAROSAI	Caribbean Organization of Supreme Audit Institutions
CARTAC	Caribbean Regional Technical Assistance Centre
CBB	Central Bank of Barbados
CDB	Caribbean Development Bank
CIDA	Canadian International Development Agency
COFOG	Classifications of Functions of Government
CS DRMS	Commonwealth Secretariat Debt Recording and Management System
C&E	Customs and Excise Department
DSA	Debt Sustainability Analysis
DTEC	Department of Technical and Economic Cooperation
EC	European Commission
EDF	European Development Fund
EU	European Union
FMAA	Financial Management and Audit Act (2007)
GDP	Gross Domestic Product
GFSM	Government Financial Statistics (Manual)
GOB	Government of Barbados
IBC	International Business Company
IMF	International Monetary Fund
INTOSAI	International Organization of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
IR	Inland Revenue Department
LIAT	Leeward Islands Air Transport
MDAs	Ministries, Departments and Agencies

MTFS	Medium Term Fiscal Strategy
MoF	Ministry of Finance
MYBF	Multi-Year Budget Framework
NAO	National Authorizing Officer
OECD	Organisation for Economic Co-operation and Development
PAC	Public Accounts Committee
PE	Public Enterprise
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PFM-PR	PFM Performance Report
PI	Performance Indicator
PSC	Public Service Commission
PSIP	Public Sector Investment Programme
SOA	Statement of Accounts
STABEX	System for the Stabilization of Export Earnings (under the Lome Convention)
TIN	Tax Identification Number
TOR	Terms of Reference
UN	United Nations
UNDP	United Nations Development Programme
VAT	Value Added Tax
VFM	Value for Money

TABLE OF CONTENTS

Summary Assessment.....	5
Integrated assessment of PFM performance.....	6
Assessment of the current strengths and weaknesses and their impact on PFM.....	16
Prospects for reform planning and implementation.....	16
INTRODUCTION.....	18
1. Objective of the Public Financial Management Performance Report: PFM-PR.....	18
2. Process of preparing the PFM-PR.....	18
3. The methodology for the preparation of the report.....	19
4. The scope of the assessment as provided by the PFM-PR.....	19
2. COUNTRY BACKGROUND INFORMATION.....	20
1. DESCRIPTION OF THE COUNTRY ECONOMIC SITUATION.....	20
2. DESCRIPTION OF BUDGETARY OUTCOMES.....	22
3. LEGAL AND INSTITUTIONAL FRAMEWORK FOR PUBLIC FINANCIAL MANAGEMENT.....	24
3. ASSESSMENT OF THE PFM SYSTEMS, PROCESSES AND INSTITUTIONS.....	30
1. BUDGET CREDIBILITY.....	38
2. Comprehensiveness and Transparency.....	43
3. Policy-Based Budget Process.....	51
4. Predictability and Control in Budget Execution.....	54
5. Accounting, recording and reporting.....	68
6. External Scrutiny and Audit.....	72
7. Donor Practices.....	76
4. Government reform process.....	79
1. Recent and On-going Reforms.....	79
2. Institutional Factors Supporting Reform Planning and Implementation.....	80

Summary Assessment

2. Objectives

1. The European Commission has been providing the Government of Barbados with direct budget support grants financed from successive European Development Funds (EDF), System for the Stabilization of Export Earnings (under the Lome Convention) (STABEX) and the European Budget. The decision to provide support in this form took into account the results of a 2006 review of Public Financial Management (PFM) in Barbados using the Public Expenditure and Financial Accountability (PEFA) performance measurement framework developed by the World Bank, the European Commission and other development institutions (the PEFA Partners). The Guidelines for the continuation of such European Commission support require a periodic reassessment of recipient countries' public financial management systems, again using the PEFA performance measurement framework. This report provides the required reassessment.

3. Scope and methodology

2. This assessment is based on the PFM Performance Measurement Framework (PMF), an integrated monitoring framework that allows measurement of country PFM performance over time. The assessment concentrates on central government and also takes into account the government's relationships with, and responsibilities for statutory bodies. Barbados does not have local government. The report encompasses the entire spectrum of PFM activities from the linking of policies to strategies and plans, budget formulation and preparation, budget execution, accounting, reporting and control to external oversight and legislative scrutiny. It assesses the current status of PFM in Barbados against the internationally agreed indicators. The actual status of PFM in Barbados is scored against the 31 – 28 national plus 3 donor - high level indicators set out in the PFM PMF; the results are included in this Summary. The Framework identifies six critical dimensions of performance of an open and orderly PFM system and also assesses donor performance. The overall findings of this assignment are grouped under these criteria.

4. Background

3. Barbados is an upper middle-income island at the eastern edge of the Caribbean Sea. Average income per head in 2009 was of the order of US\$ 13,000. With a total population of 275,700, Barbados is a small open economy very dependent on OECD countries to provide the tourism receipts and investment flows the country needs in order to prosper. Although visible exports account for less than 10 per cent of GDP, as against imports of some 35-40 per cent, the current balance of payments deficit has generally been in the range 5-10 per cent of GDP as a result of earnings from tourism which correspond to about 30 per cent of GDP. This current deficit has generally been financed by investment inflows related to tourism and to international financial services, without the need to draw on official foreign exchange reserves. The IMF considers that the exchange rate of BD\$2 per US dollar, which has been maintained since 1975, remains appropriately competitive. Following the 2001 recession (which saw a 2.5 per cent fall in GDP), the Barbados economy grew on average at 3-4 per cent a year up to 2007. According to the Central Bank of Barbados (CBB) there was a 0.2 per cent fall in GDP in 2008, followed by a further fall of 4.8 per cent in 2009 as the global recession intensified. The outlook for 2010 is for the economy at best to remain flat:

recovery thereafter is absolutely dependent on continuing recovery in Europe and North America.

4. Barbados ranks considerably higher than most of its neighbours in the UN Human Development Index (at 37 it is on a level with many industrial countries), based on its well-developed education and health services, which provide free health care and free education up to university level. These are made possible by relatively high taxes which in recent years have corresponded to about 35 per cent of GDP. (National Insurance contributions (net of employer contributions in respect of public sector employees), which are charged at more than 20 per cent of earnings up to a ceiling, account for a further 6.5 per cent of GDP.) In 2007-08 there were substantial increases in all the main areas of public expenditure, with employment costs, purchases of goods and services, and subsidies and transfers each absorbing more than an additional one per cent of GDP. Barbados was thus in a difficult position to absorb the impact of the global recession, which reduced its revenue flow while adding to demands on the public sector to support the economy and cushion the impact of rising unemployment. Although capital expenditure was cut back, and some elements of current expenditure trimmed, the result was an overall government deficit of 5.4 per cent of GDP in 2008-09, and an estimated further deterioration to 8.2 per cent in 2009-10.

5. Although the bulk of government deficits in the years up to 2007-08 has been financed from domestic sources (with domestic debt accounting for about two-thirds of gross government debt) deficits on the current scale cannot be sustained without some foreign borrowing, which at the same time is needed to offset the impact on official foreign exchange reserves resulting from shortfalls in tourism receipts and private capital inflows. However, additional borrowing adds to the already considerable burden of debt service, while access to international markets is likely to be limited by perceptions that government debt as a proportion of GDP is becoming unsustainably high. Gross central government debt already amounted to 90.5 per cent of GDP in 2009, and will increase further to an estimated 93.8 per cent or more in 2010. The government has therefore set out a Medium Term Fiscal Strategy which aims to achieve a balanced budget by 2014-15 and a small surplus the following year. This will require an overall fiscal adjustment of around 8 per cent of GDP, which in turn requires slower growth in the costs of public employment, more efficient public procurement, reductions in transfers to public enterprises and statutory boards, and more efficient tax collection.

Integrated assessment of PFM performance

6. The PFM analysis has been carried out for the period 2006 to 2009 based on a review of a wide range of documentation, reports and many interviews with a number of stakeholders.

The results of the analysis are set out in table 1 below.

Table 1. Summary Assessment

PFM Performance Indicator		Scoring Method	Dimension Ratings				Overall Rating
			i.	ii.	iii.	iv.	
A. PFM-OUT-TURNS: Credibility of the budget							
PI-1	Aggregate expenditure out-turn compared to original approved budget	M1	A				A
PI-2	Composition of expenditure out-turn compared to original approved budget	M1	C				C
PI-3	Aggregate revenue out-turn compared to original approved budget	M1	A				A
PI-4	Stock and monitoring of expenditure payment arrears	M1	NR	D			NR
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency							
PI-5	Classification of the budget	M1	C				C
PI-6	Comprehensiveness of information included in budget documentation	M1	A				A
PI-7	Extent of unreported government operations	M1	D	A			D+
PI-8	Transparency of inter-governmental fiscal relations	M2	-	-	-		-
PI-9	Oversight of aggregate fiscal risk from other public sector entities	M1	C	-			C
PI-10	Public access to key fiscal information	M1	A				A
C. BUDGET CYCLE							
C(i) Policy-Based Budgeting							
PI-11	Orderliness and participation in the annual budget process	M2	A	A	A		A
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	M2	C	A	C	C	C+
C(ii) Predictability and Control in Budget Execution							
PI-13	Transparency of taxpayer obligations and liabilities	M2	C	B	A		B
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	M2	C	C	C		C
PI-15	Effectiveness in collection of tax payments	M1	D	A	D		D+
PI-16	Predictability in the availability of funds for commitment of expenditures	M1	A	B	B		B+
PI-17	Recording and management of cash balances, debt and guarantees	M2	A	A	C		B+
PI-18	Effectiveness of payroll controls	M1	A	B	A	B	B+
PI-19	Competition, value for money and controls in procurement	M2	D	B	C		C
PI-20	Effectiveness of internal controls for non-salary expenditure	M1	C	B	A		C+
PI-21	Effectiveness of internal audit	M1	D	C	C		D+
C(iii) Accounting, Recording and Reporting							
PI-22	Timeliness and regularity of accounts reconciliation	M2	B	C			C+
PI-23	Availability of information on resources received by service delivery units	M1	B				B
PI-24	Quality and timeliness of in-year budget reports	M1	C	A	A		C+
PI-25	Quality and timeliness of annual financial statements	M1	A	A	B		B+
C(iv) External Scrutiny and Audit							
PI-26	Scope, nature and follow-up of external audit	M1	B	C	C		C+
PI-27	Legislative scrutiny of the annual budget law	M1	D	B	D	A	D+
PI-28	Legislative scrutiny of external audit reports	M1	D	D	D		D
D. DONOR PRACTICES							
D-1	Predictability of Direct Budget Support	M1	D	D			D
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	M1	NR	NR			NR

PFM Performance Indicator		Scoring Method	Dimension Ratings				Overall Rating
			i.	ii.	iii.	iv.	
D-3	Proportion of aid that is managed by use of national procedures	M1	C				C

A brief summary of the key findings is set out in the following paragraphs.

5. Credibility of the budget

7. The 2006 PEFA assessment found that the Budget as presented was a good predictor of actual expenditure. This remained true for 2006-07 when the out-turn was only 1.1 per cent above budget, but the two subsequent years saw significant divergences between Estimates and out-turn, with increases above budget of 7.3 per cent and 4.4 per cent for 2007-08 and 2008-09 respectively. These increases in part reflect decisions to increase expenditure in 2007-08, and the impact of the recession in 2008-09 in requiring higher expenditure to support employment and to offset the impact of revenue shortfalls on statutory boards. There was significant reallocation (additional variance over and above the aggregate deviation between budget and out-turn) in all three years considered: the additional variance was 6.6 per cent, 9.0 per cent and 6.0 per cent for 2006-07, 2007-08 and 2008-09 respectively.

8. On the revenue side increases above budget for total revenue of 3.6 per cent and 4.0 per cent were recorded for 2006-07 and 2007-08, followed by a shortfall of 5.1 per cent for 2008-09, as the recession made itself felt. Within the aggregate there were some differences in experience as between the main types of tax, with income and profits taxes yielding 35 per cent more than budget in 2006-07 while taxes on international trade fell about 25 per cent below budget in that year. Receipts were fairly close to budget in each of the main areas in 2007-08, while in 2008-09 they fell short in all areas except taxes on property, where they were 25 per cent above budget. For 2009-10, the prospect is an overall revenue shortfall of more than 15 per cent.

9. Unlike its neighbours in the Eastern Caribbean, Barbados has its own central bank, from which the government can borrow to overcome short term cash flow difficulties. The automated Smartstream financial management system can provide constantly updated information about payments outstanding for which goods or services have already been delivered, i.e. where payment invoices have been entered into the system but not yet paid. The amounts outstanding at the end of each financial year have fluctuated considerably: in March 2008 outstanding payments were BD\$8.9 million, but unpaid cheques were BD\$236.8 million and the Treasury overdraft BD\$91.0 million, while in March 2009 outstanding payments were BD\$87.3 million, unpresented cheques only BD\$47.5 million, but the overdraft was BD\$215.0 million. The payments outstanding, however, cannot be equated with arrears: payments are normally only in arrears when outstanding for more than 30 days. In practice true arrears are most likely to arise when sections of Ministries delay entering the invoices into the system for payment; once entered into the system, the Treasury normally pays within a very few days. The indications are that arrears amount to much less than 2 per cent of total expenditure, but there

is no readily available information about the volume of payments which are actually overdue, or the length of time they have remained outstanding.

6. Comprehensiveness and transparency

10. The budget is presented by Ministry with breakdowns by Programme and Sub programme. Within each Sub programme there is a breakdown by Account Code (which is in effect a detailed economic classification). Some Programmes (notably Direction and Policy Formulation Services, and the World Bank financed HIV/AIDS Prevention and Control Project) run across several Ministries, but the aggregates are not presented. A basic functional presentation is also provided, but the breakdown by Ministry now covers only current expenditure, with capital expenditure all shown under the Treasury (and reported en bloc in the subsequent annual Financial Statements). Comparisons over time are also made more difficult by Ministerial reorganisations. Revenues are classified by economic and functional classification, with details by collecting Ministry of each item of non-tax revenue. The documentation presented to Parliament as part of the Estimates normally includes most of the required elements but does not include any quantification of the impact of changes in policy. Debt information (but excluding information about government-guaranteed debt) is presented in great detail without any convenient aggregation, and there is no information about government financial assets except for those held in Special Funds. A distinction has to be made between the presentation of the Estimates (which cover revenue as well as expenditure) which must be approved after debate before the end of March, and the Budget Speech (which covers the prospects for the economy and announces any changes in taxation), which is usually delayed until May or June and in the current period is even later.

11. Unreported government expenditure should not be a problem, given the formal requirement that statutory bodies should present their Estimates and audited accounts to Parliament as well as to MoF and their sponsor Ministry. In practice this obligation is often not met, thereby reducing the transparency of this important area of government operations. Transfers to statutory bodies engaged in providing public services account for about 15 per cent of 2010-11 Estimates provision (excluding debt amortisation). The details of their expenditure and revenues other than the transfers from the Budget are not subject to any Parliamentary or MoF supervision, they operate outside the Treasury system, and their financial reporting in many cases is delayed or incomplete. All donor-funded expenditure is included in the Estimates and financial reports: the government meets the costs of donor-funded projects, and then reclaims the expenditure. Although there has in the past been some off-budget government expenditure financed through borrowing (e.g. for the rebuilding of the Kensington Oval Cricket Ground for the 2007 World Cup), the IMF were satisfied in 2009 that such practices were no longer happening. On the other hand, the failure by a number of significant bodies to make the required quarterly financial reports to their sponsor Ministries and MoF precludes any consolidated overview of the potential risks they imply for central government finance. There may in particular be some risk that statutory boards could enter into future commitments which the government would ultimately have to meet or guarantee. So far as transparency to the general public is concerned, the Estimates and Financial Statements can in principle be obtained in printed form, while the Auditor-General's reports are available in both printed form

and on the Barbados Audit Office website. Monthly information about budget execution (in the form of full Financial Statements) is given to Parliament by the Accountant-General about four months after the end of the month in question, and thus made available to the general public.. The Estimates show in detail the resources allocated to health clinics and secondary schools for the following year, together with actuals for the preceding year and revised estimates for the current year. No information is published about the award of contracts.

7. Policy-based budgeting

12. The Budget preparation procedure is well-established. Following decisions by the Prime Minister (who is also Minister of Finance) on the ceilings within which each Ministry should prepare its Estimates, a detailed Circular is issued in August or September with instructions about how the Estimates submissions are to be prepared. Ministries normally then have at least two months to develop their proposals which are entered directly into the budget preparation module of the Smartstream system. Proposals for new activities and new investments have to be distinguished from the costs of maintaining established services. In addition to their proposals for the year immediately ahead, most Ministries are now required to provide detailed forward projections of their budgets for the following two years (this requirement for medium-term planning has been introduced progressively since 2005-06) in the same format as for the Budget year. Figures for all three years should be on the basis of prices current at the time of preparation; adjustments for future price changes are made centrally by MoF. Once MoF has collected all the submissions, and considered the implications of well-justified bids above the allocated ceilings, the Budget Department discusses the submissions in detail with each Ministry, and may ask them to revise their bids in conformity with a lower ceiling than that initially issued. The revised submissions, with the following two years adjusted consistently with those for the Budget year, should then be approved by Cabinet for inclusion in the document to be presented to Parliament, with the figures for the second year to serve in due course as the baseline for the preparation of the Budget for that year.

13. There has thus been very substantial progress towards effective medium-term budget planning. But the process is not yet working fully: MoF are still able to make further changes in the figures in the Smartstream system without consulting the Ministries concerned, so that they may be faced with reduced allocations for particular purposes within which they cannot remain. Ministries are then obliged, because of the constraints on the virement, to ask for Supplementary Estimates even if they have offsetting savings which will keep their overall expenditure within the reduced ceiling imposed by MoF. The further consequence is that the figures for the second and third years have then to be reconsidered, since there is no longer an agreed starting point for the preparation of the next year's Budget. The further challenge for the future will be to bring the aggregate of these medium-term budget projections within the overall limits set by the government's Medium-Term Fiscal Strategy, i.e. to prepare detailed expenditure plans which will achieve the government's targets in terms of slower growth in employment costs, lower expenditure on goods and services, and markedly lower transfers to statutory bodies.

8. Predictability and control in budget execution

14. The tax system is well-established, and individual taxpayers' liabilities are reasonably clear. VAT, which has been in operation since 1997, is the largest-yielding tax, accounting for about 30 per cent of total revenue. There is extensive provision for zero-rating, as well as for discretionary tax exemptions. Personal and corporate income taxes together provide more than 35 per cent of revenue, with import duties and property taxes accounting for most of the remainder. Personal income tax (charged at 20 per cent on taxable income in the range BD\$25,000-49,200 and 35 per cent thereafter) is collected from employees by PAYE, but because of the variety of allowances that may be set against income, many people are in the position of having to apply for a refund at the end of the tax year. The Inland Revenue Department is seeking to promote on-line filing, and has made special efforts to help taxpayers do this. On-line filing should simplify the process for both taxpayer and tax authorities, although the calculation of liability may well not be transparent to the individual taxpayer. Corporation tax is charged at 25 per cent for domestic companies, with a lower rate of 15 per cent for small companies and companies engaged in manufacturing. However, more than half the corporation tax yield comes from the low rates of tax (2.5 per cent, reducing to 1 per cent on profits over BD\$30million) charged to International Business Companies (IBCs) whose activities are located outside Barbados. There is a wide discretion for the Minister of Finance to grant exemptions from import duties, VAT and other taxes, in order to encourage investment in Barbados. (The Customs Department estimated the total effect of these exemptions in 2008-09 as reducing revenue by BD\$775million, which corresponds to about a third of actual tax revenue.) At present none of the revenue Departments' websites are operational. There is provision in disputed cases concerning VAT and corporate and personal income taxes for appeals to an independent advisory tribunal which makes recommendations to the Minister of Finance, but it does not appear that much use has been made of this as disputes are reputed to be settled amicably.

15. Individual taxpayers are registered under their Personal Identification Number. There is a single Tax Identification Number (TIN) for Corporation Tax and VAT, but a different number may be used by Customs where the taxpayer is below the VAT threshold. The TIN is given to new registrants on presentation of proof of their business registration. An IDB-financed project on customs modernisation (including VAT and Excise Taxes which are currently part of Customs Department) is currently in process of implementation, with the objective of improving work organisation and procedures and establishing a single electronic window covering all taxes applicable to imports and exports. Beyond this the Medium Term Fiscal Strategy envisages the establishment by the end of 2010-11 of a Central Revenue Authority covering income, corporation and excise taxes and VAT (but not customs duties). It is planned that the Caribbean Regional Technical Assistance Centre (CARTAC) should carry out a comprehensive review of Barbados tax legislation, to be completed by the end of 2011-12. In the case of VAT the intention is to improve the legislation to strengthen the enforcement of compliance and to provide for on-line filing. The VAT Unit is 25 per cent under complement, with key vacancies in professional accountancy posts; as a result of this very little tax audit work can be done, and no resources are available for visits to prospective taxpayers to encourage compliance.

16. The last two years' accounts show that gross tax receivables (before any provision for bad debts) increased from BD\$439million in March 2007 to BD\$506million in March 2008 and BD\$566 million in March 2009. Total tax collections in 2007-08 were BD\$2377million and in 2008-09 BD\$ 2369million. Thus the total outstanding at the end of the year 2008-09 was equivalent to about 24 per cent of revenue collected during the year, with the increase in amounts outstanding amounting to about 2.5 per cent of total collections during the year. Many of the arrears are several years old and thus almost certainly uncollectable, but it seems clear that the efforts currently devoted to the enforcement of collections are insufficient. All revenue is paid into Treasury accounts the day after it is received; it is understood that the commercial banks have resisted the establishment of arrangements which would enable taxpayers to make payments directly into the Treasury accounts. The interface between Smartstream and the tax accounting systems ensures a daily reconciliation between the amounts paid to the Tax Departments and the amounts reaching the Treasury, but it appears that no reconciliation is undertaken between the aggregate amounts collected and the accounts of individual taxpayers.

17. Once Estimates provision for the forthcoming year has been settled, Ministries are required to submit their forecast monthly cash requirements for the April-June quarter to MoF by the middle of March, to serve as a basis for the warrants releasing the first quarterly tranche of expenditure. They can be confident of cash availability for the quarter ahead provided they keep within the amounts allocated by account code to each sub programme. But they may be unwise to commit themselves to expenditure later in the year which goes beyond the amount already released for the relevant sub programme and account code. In practice, however, Smartstream will permit them to "borrow" provision in a different programme under the same account code, provided always that they do not exceed the annual allocation to the sub programme. Upward adjustments to programmes normally require Supplementary Estimates, and are fully transparent, but MoF can cut back on the quarterly releases of expenditure through the warrants, so that the total eventually provided for the year is less than the original Estimates provision.

18. Central government debt data are accurately recorded by the Treasury and CBB (which is responsible for managing external debt), and reports are available on a daily basis. Information about outstanding debts guaranteed by the government appears to be produced only at quarterly intervals. With the exception of money in project bank accounts (BD\$52 million at the end of 2008-09), all the government's cash is consolidated in the Treasury accounts. The contracting of loans by the government and the issue of guarantees is fully controlled by the Treasury and CBB.

19. There is full integration between the Smartstream payroll and personnel modules, providing a high degree of assurance that staff are paid correctly. However, given the complexity and frequency of the arrangements whereby holders of particular posts are transferred to act in other (usually higher) posts, there are sometimes delays in updating records which result in a need for retrospective adjustments to provide back-pay to seconded officials. The internal

controls over personnel movements and the associated records appear to be very strong, but tend to operate rather slowly provoking complaints that the effective deployment of staff is severely hindered. While the annual audit by BAO of the government's Financial Statements includes some testing of the payroll, it does not appear that any payroll audits aimed specifically at checking the physical existence, qualifications and activities of staff have been conducted in recent years. However, the Personnel Administration Department carries out a full verification of the qualifications and experience of all staff, including temporaries, before appointments and promotions take effect, and is exclusively responsible for entering changes into the payroll system. In addition there is a rolling programme of inspections of the use of staff, which have some of the characteristics of payroll audit.

20. Procurement continues to be governed largely by the Financial Administration and Audit (Financial) and (Supplies) Rules 1971. Much of procurement takes place through the Chief Supply Officer in the Ministry of Finance who keeps lists of approved suppliers, and ensures that tenders are invited for all contracts with a value in excess of BD\$100,000. There is provision for appeals to the Minister of Finance against exclusion from the list of approved suppliers. For purchases in the range BD\$20,000-100,000 Ministries should raise purchase orders which are also registered in Smartstream. But the Rules provide a wide discretionary exception (Article 137A) to the requirement for a tender process where there is an emergency situation, where the goods are of a special nature, and where they are not readily available in Barbados. Although there are numerous tenders conducted by the Board chaired by the Chief Supply Officer, there are no conveniently available records which would make it possible to determine the volume or value of contracts let by relatively open tender, and the amount incurred on contracts let without effective competition. There are examples of large contracts let without effective competition, which have been the subject of severe criticism by the Auditor-General. The results of tenders are not published, and no machinery exists to deal with complaints from unsuccessful bidders, although there was one appeal to the Courts in the 1980s. Nor is there any statistical information available about the extent to which contracts below the BD\$100,000 threshold are subject to effective competition. The procurement system has been the subject of a recent assessment supported by CDB, and it is now intended that this should be followed up by the employment of a consultant to prepare new legislation consistent with OECD best practice before mid-2011.

21. The procedures preventing payments beyond the amounts authorised in the Estimates and released by the warrants serve as a strong disincentive to over-commitments. The registration of purchase orders in the Smartstream system provides a partial means of monitoring commitments, but since Ministries do not always raise the purchase orders, even this information is incomplete. Moreover, contracts, which may often result in expenditure beyond the current year, are not registered in Smartstream, so that there is at present no means of tracking commitments under them. Other internal controls remain as specified in the 1971 Financial Rules, but appropriate arrangements are enforced to ensure proper hierarchical supervision and division of functions. However, the Accountant-General has found that Ministries are not making proper use of the electronic environment in their own management accounting systems, resulting in errors and omissions which are only detected through Treasury

reviews or external audit. The Smartstream system ensures, however, that rules are observed for the processing and recording of transactions. Internal audit remains relatively underdeveloped: the Accountant-General has a small unit which looks both at the functioning of the Treasury systems, and at specific financial management problems throughout the government, often at the request of Ministers or senior officials. The tax departments also have internal auditors, who focus on their own management systems. The auditors concerned consider that appropriate action is usually taken in response to their reports. Financial Controllers in each Ministry, who must be qualified accountants, undertake a certain amount of internal audit work within their own spheres of responsibility, but so far only the Ministry of Transport and Works has a functioning internal audit unit. The Accountant-General seeks to provide advice and professional leadership for internal audit work throughout the government, but arrangements have yet to be developed to provide for co-ordination of the work, or the exchange of useful findings.

9. Accounting, recording and reporting

22. The Treasury's account at the CBB is reconciled on a daily basis, and the unreconciled difference is trivial. There are more difficulties in reconciling the Treasury's main accounts at two commercial banks arising from problems with their procedures; reconciliations are usually complete within four weeks of month-end, although there have been delays resulting from staffing problems. Reconciliations of special accounts where the Treasury holds balances on behalf of Ministries take place only at intervals. The repayment of advances is continuously tracked, although they may only be finally cleared when the recipients retire and any outstanding balance can be recovered from their retirement gratuities. As noted above, information is published about the resources allocated to health clinics and secondary schools, but not other health and education institutions. Monthly Budget execution monitoring reports are prepared, with the bulk of the information generated directly from the Smartstream accounting and payment system. Complete reports of income and expenditure are available within two weeks of the end of each period, although balance sheet information may be delayed by several months. Full monthly budget execution reports, including balance sheet items, are sent to Parliament within about four months, and are then available to the public. The Accountant-General's Annual Reports and Financial Statements are published at the end of July each year, i.e. four months after the end of each financial year, prior to their submission for audit. They include full information on revenue, expenditure and financial assets/liabilities, and are prepared in accordance with International Public Sector Accounting Standards (IPSAS) with comprehensive descriptive Notes. Questions remain, however, about the accuracy and completeness of some items, particularly the valuation of fixed assets.

10. External scrutiny and audit

23. External audit under the responsibility of the Auditor-General covers the whole central government. FMAA has confirmed that his remit covers all Statutory Bodies; where such bodies have arranged for independent private sector auditors to audit their accounts, the reports are required to be submitted to him for transmission to Parliament, and he is free to carry out his own inspections as well. However, the Barbados Audit Office (BAO) is more than 35 per cent understaffed, resulting in delays in the production of the Annual Report on the government's

Financial Statements, and incomplete coverage of Ministries' activities. (The Annual Report should be ready by the end of the calendar year, but has recently been delayed by as much as four months.) Because of uncertainties about some elements in the accounts, the Auditor-General has so far declined to give a positive Opinion on the Financial Statements produced under accrual accounting. In addition to his overall financial audit, the Auditor-General publishes Special Reports on particular topics such as investment projects or the performance of statutory bodies. The reports in some cases record the auditees' responses to the findings, but BAO does not have the resources needed to ensure a consistent follow-up of all its findings and recommendations

24. The scope for Parliamentary scrutiny of Budget proposals is relatively limited. The Estimates are only presented to Parliament once the Cabinet have settled all details, and there is no real possibility of substantial amendment to meet Parliamentary concerns. The subsequent debate gives an opportunity for discussion of all aspects of the government's expenditure plans, and there are usually some small adjustments to particular budget lines in response to points made in the debate. The Budget Statement, which reviews the prospects for the economy, and sets out any changes in taxation, is only made after the beginning of the financial year, usually in May or June. In-year amendments providing for increases in budgeted expenditures require Supplementary Estimates, and thus are always undertaken transparently.

25. The Public Accounts Committee (PAC), a joint Committee of the House of Assembly and the Senate, has the function of examining reports by the Auditor-General, and making recommendations concerning action to be taken in response to them. It also has a duty to make recommendations about the amount of the budget allocated to the BAO. Although the Committee has fulfilled this latter function, and the obligation to meet at least twice a year, it has not in recent years undertaken any examination of reports by the Auditor-General

11. Donor Practices

26. Budget support grants from the EU (actual receipts BD\$29 million in 2009-10) are covered in Estimates and Financial Statements,, and the spending necessarily follows national procedures for procurement, accounting, audit and reporting. But because the timing of the payments depends on when the EU judges that the conditions for the release of funds have been met, the actual receipts in any given year can diverge markedly from budgeted amounts. Only limited amounts of project financing loans or grants have been received in recent years, but it was not possible to verify whether the amounts received had been close to the budget estimates. In all cases the government undertakes the expenditure, and then recovers the cost from the institution concerned, so that the expenditure is fully reflected in Estimates and Financial Statements. It appears that national procedures are largely followed, although there may be some special requirements concerning the tender process and audit.

Assessment of the current strengths and weaknesses and their impact on PFM**12. (a) Aggregate fiscal discipline**

27. There was a substantial loosening of fiscal policy in 2007-08, in advance of the global recession. The impact of the recession has been to increase demands for expenditure, while sharply reducing available revenue. In these circumstances forecasting is difficult of both revenue and expenditure. The PFM systems, and in particular the Smartstream electronic environment in which budget planning and execution takes place, and the generally effective assessment and collection of taxes, should in normal circumstances make possible the maintenance of fiscal discipline. The progressive introduction of medium term budgeting and the intended improvements to the tax and procurement systems should further reinforce the maintenance of fiscal discipline.

13. (b) Strategic allocation of resources

28. Barbados has relatively well-developed public services and public infrastructure, and thus no pent-up demand calling for major reallocations of resources. Decisions from year to year about the allocation of resources have mainly taken the form of incremental changes from previously established expenditure levels. Progress in medium term budgetary planning should facilitate a more pro-active policy towards resource allocation, which will in any event be needed if the government is to achieve the overall fiscal adjustment set out in its medium term fiscal strategy. Improvements in public service manpower planning and management could also make an important contribution to strategic resource allocation.

14. (c) Efficient service delivery

29. Barbados's overall budget planning, accounting and reporting systems work well. But there are weaknesses in supervision of statutory bodies, in public procurement, in the control of commitments and in the operation of internal audit. Improvements in these areas could all contribute to more efficient service delivery. A further impetus to improvement could be given if a way could be found to make the Public Accounts Committee a more effective instrument in pressing the executive to respond effectively to recommendations in the reports of the Auditor-General..

Prospects for reform planning and implementation

30. Over the last fifteen years the Barbados government has taken a number of important steps to improve PFM. A new Financial Management and Audit Act became law in 2007. The Smartstream system within which budget planning and execution takes place has been installed, and now operates consistently and reliably, providing constantly updated information about all elements of budget execution throughout the government (but excluding statutory bodies). All central government cash is now centralised in bank accounts controlled by the Accountant-General. Since 2007 budget planning and reporting has been done on the accruals basis, though there are some issues associated with tax revenue. . A start has been made in the installation of the internal audit function throughout the government. VAT has been in operation since 1997, and the Inland Revenue has introduced e-filing for income and

corporation taxes. An Office of Public Sector Reform has been functioning since 1992 and has been responsible for a wide range of initiatives to make government activities and processes more efficient. Since 2006 professional qualifications have been required for appointment to senior posts in the government service, and there has been notable progress in developing the finance function in spending Ministries. From 2010-11 medium-term budgetary planning has been required in most Ministries. The most important task facing the Barbados government is to achieve the fiscal adjustment set out in its Medium Term Fiscal Strategy, and thereby return Barbados's public finances to a sustainable position. Although achievement of this objective requires decisions about pay, price and expenditure levels, it is also dependent to an important extent on further PFM progress: specifically it calls for reforms in the organisation of tax collection and in tax legislation so as to improve the collection of revenue, a reform of public procurement to make the process more efficient and competitive, and an improvement in the financial performance of statutory bodies so that the amounts of government transfers to them can be reduced. As noted above, reform initiatives are already in progress in the fields of taxation and procurement. For the MTFS as a whole, it will be essential to ensure that general intentions are translated into a specific programme of time-bound actions which will deliver the progressive improvement for which the strategy calls.

General Overview

31. Barbados has well-developed public services and a reasonably good infrastructure. The Smartstream electronic environment within which the Budget is planned and executed has been designed in such a way as to ensure that payments and receipts are correctly processed, recorded and reported, and that up-to-date financial reports can be generated at any time. The annual budget process works satisfactorily, but further efforts are needed to improve the planning of public service delivery in a longer timescale, so as to ensure that resources are used as economically and effectively as possible. Improvements to the functioning of the tax system, including the deployment of sufficient professional expertise will be important, as will be the further development of internal and external audit, if Barbados is to achieve the substantial fiscal adjustment now required to put its public finances on a sustainable path in the longer term.

INTRODUCTION

1. Objective of the Public Financial Management Performance Report: PFM-PR

1. The purpose of this PEFA evaluation is to assess the current performance of Barbados's Public Financial Management (PFM) system in order to highlight changes over time, identify priorities for further PFM reform and provide a common information base for dialogue between the government and its development partners. It has been sponsored by the European Commission (EC) as part of the analysis undertaken to determine the future eligibility of Barbados for continuing direct European Union (EU) budget support.

2. The PEFA Public Financial Management (PFM) Performance Measurement Framework (PMF) is one of the elements of the Strengthened Approach to supporting PFM reforms developed by the World Bank, the European Commission and other development partners. The Strengthened Approach has three components: (i) a country led PFM reform strategy and action plan, (ii) a coordinated programme of activities financed by development partners which supports and is aligned with the government's PFM reform strategy, and (iii) a shared information pool. The PEFA PMF is a tool for providing the third component.

3. It should be stressed that the PEFA PMF does not seek to assess fiscal or expenditure policy. The framework rather focuses on assessing the capacity of the elements of the system to facilitate the achievement of desired enable policy outcomes. Thus, this report does not articulate specific recommendations for PFM reform or an action plan. It is hoped, however, that the analysis presented will assist the government to define and articulate its PFM reform priorities and action plan. The intention is to assess the performance of the PFM system not that of individual officials engaged in it.

2. Process of preparing the PFM-PR

4. Following an initial half day workshop at which the review team presented the main elements of the PEFA analysis to Ministry of Finance (MoF) officials and other stakeholders, detailed discussions were held during the period 7-28 May 2010 with the MoF Accountant General's Department, the Budget Department, the Inland Revenue and Customs Departments and the VAT Unit, the Public Investment Unit, and the Management Accounting Unit. Others consulted included the Auditor-General, finance officers and other administrative and senior technical staff of the Ministry of Economic Affairs, the Ministry of Education and Human Resource Development, the Ministry of Health, the Ministry of Transport and Works, the Ministry of Agriculture and the Personnel Administration Department of the Ministry of the Civil Service. Discussions were also held with the Central Bank of Barbados (CBB) and with accountancy firms who provide advice to taxpayers. The review team are very grateful for the open and constructive spirit in which the discussions were conducted, and for the provision of

much detailed information which they have sought to reflect in the draft report. An almost complete first draft report was sent to GoB at the beginning of June 2010. A short follow-up mission took place at the beginning of July 2010, with the objective of revising and completing the Report, in the course of which the conclusions were presented to officials and representatives of the development partners at a further workshop. Thereafter a revised draft report was submitted to the Barbados government, and also for quality assurance purposes to the PEFA Secretariat in Washington, D.C. The current text seeks to take account of the Secretariat's comments, as well as of further material submitted by the Barbados government.

3. The methodology for the preparation of the report

5. The assessment was prepared on the basis of the PFM Performance Measurement Framework issued by the PEFA multi-donor programme in June 2005. The PFM Performance Measurement Framework is an integrated monitoring framework that was developed as a tool to provide reliable information on the performance of PFM systems, processes and institutions. The framework relies on a set of high level Performance Indicators. The approach has been to assess the current status of the Barbados PFM system based on the PEFA Indicators, which comprise a set of 28 indicators that measure different aspects of the central government's PFM systems and 3 indicators that assess the involvement of donors in the government's budgetary processes. The focus of the assessment is the central government; the report considers statutory bodies only to the extent that their activities may have implications for central government finance. The Performance Indicators, which are scored on a rating system from A to D, are presented along with a narrative to provide a brief description of the different PFM processes and procedures adopted by the government, and also to support and explain the ratings. Before presenting the Performance Indicator ratings, the report gives information about the country's economic situation, recent budgetary outcomes and the administrative structure in which PFM takes place.

6. An important consideration in developing these indicators is an appreciation of the quality, comprehensiveness and accuracy of data that is used to determine the indicators. The reliability of the indicators can only be as good as the quality of the financial data upon which they were calculated. The review team therefore paid particular attention to the completeness and quality of financial data in assessing the PEFA indicators.

4. The scope of the assessment as provided by the PFM-PR

7. In conformity with PEFA guidelines, the assessment of Barbados's PFM concentrates on the operations of the central government, which comprises government units covered in the budget. The central government includes the Office of the Governor General, the Parliament, the Supreme Court, the Director of Audit, and 19 ministries, including the Office of the Prime Minister. This definition of central government includes transfers to the National Insurance Scheme and other statutory bodies. The Post Office, which is included as an annex to the

Estimates, has been excluded, except to the extent that any deficit in its operations is taken into account in arriving at the overall fiscal balance.

8. Most quantitative PEFA indicators require data for three years as the basis for the assessment. Data should cover the most recent completed fiscal year for which data is available and the two immediately preceding years. Thus, the PEFA assessment for Barbados is based, where relevant, on the experience of fiscal years 2006-07, 2007-08, and 2008-09. In addition, as far as possible, account is taken of the experience of the recently completed financial year 2009-10. The structure of the rest of the evaluation report is as follows. Section 2 provides background information on the economic, fiscal, legal and institutional context for the evaluation. Section 3 records and explains the scores for the 31 individual Performance Indicators. Section 4 describes the government's PFM reform efforts up to May 2010 and the prospects for further progress. Annex 1 presents Statistics used in the Calculation of Quantitative Indicators and Annex 2 presents the Terms of Reference for this PEFA Assessment. Annex 3 lists the documents consulted and Annex 4 comprises a list of people met during the assessment.

2. COUNTRY BACKGROUND INFORMATION

1. DESCRIPTION OF THE COUNTRY ECONOMIC SITUATION

9. The State of Barbados is the most easterly island in the Caribbean Sea, with its east coast facing directly on the Atlantic Ocean. Barbados is 34 kilometres long and 23 kilometres wide, with an area of 430 square kilometres. Much of the southern part of the country is relatively low-lying and flat, and thus suitable for sugar cultivation, on which the island traditionally depended, but further north there are hills up to 360 metres above sea level. The island is divided into eleven parishes which are geographical entities without separate administrative functions. The capital city and headquarters of government for the country is Bridgetown.

10. According to the 2000 Census, Barbados had a population of 268,800, of whom 129,200 were males and 139,600 females. Since then the resident population is estimated to have increased gradually to 275,700 in 2008. 80 per cent are of African descent, 4 per cent European, and 16 per cent mixed race.

Table 2.1 Selected Macroeconomic Indicators

	2004	2005	2006	2007	2008
	(Annual percentage change, unless otherwise indicated)				
Population statistics					
Population (Thousands)	272.7	273.4	274.0	274.7	275.7
Population growth	0.2	0.3	0.2	0.3	0.2
National income and prices					
GDP at constant 1974 prices	4.8	3.9	3.2	3.8	-0.2
GDP per capita, in current US\$	11,745	13,478	14,179	14,700	14,465

Consumer prices (average)	1.4	6.1	7.3	4.0	8.1
Real effective exchange rate		1.6	3.4	-2.4	3.9
Money and credit					
Credit to the private sector	18.7	24.6	13.0	7.8	9.9
Money and quasi-money (M2)	18.5	11.3	-1.0	20.5	3.1
(In percent of GDP, unless otherwise indicated)					
External sector					
External current account 1/	-12.0	-13.1	-8.4	-5.4	-10.5
Overall balance of payments (BD\$ millions)	-340.6	-138.1	82.6	556.6	-498.3
Gross official reserves (US\$ millions)	595.5	618.2	597.0	774.0	678.1
In months of current year imports	3.4	3.3	4.0	3.3	4.2
Government debt					
Govt and govt guaranteed debt (net)	77.4	81.2	79.0	86.5	93.7
Foreign debt	21.1	21.2	21.2	21.3	24.8
Domestic debt (net of assets and sinking funds)	45.3	45.8	43.5	49.3	56.0
<i>Memo:</i> Nominal GDP at market prices (US\$ millions)	3203	3685	3885	4038	3988

Sources: Ministry of Finance; Barbados Statistics Office and IMF staff estimates.

1/ Includes foreign grants.

11. Barbados is a middle income country with a small open economy and an estimated GDP per capita of about US\$13,000 (at current market prices) in 2009. Of the larger Caribbean islands, Barbados ranks second to Trinidad and Tobago in terms of per capita income, and ranks highest in the Caribbean in the United Nations' Human Development Index (HDI). Its global HDI ranking of 37th reflects the high standard of health and education services and puts it alongside many of the more developed industrial countries. The economy depends primarily on receipts from tourism (which account for around 30 per cent of GDP) to offset the large trade deficit resulting from the fact that most goods used in Barbados have to be imported (imports correspond to around 35-40 per cent of GDP, while exports account for less than 10 per cent of GDP). In recent years the current account deficit has generally corresponded to less than 10 per cent of GDP, and has been largely offset by private capital inflows related to tourism and the operation of international business companies. A fixed exchange rate of BD\$ 2.0 per US dollar has been maintained since 1975; in the view of the IMF this exchange rate remains internationally competitive. There has been a substantial review of Barbados GDP statistics in 2010, which indicates that GDP has been running at a rate 15-20 per higher than had previously been estimated. This upward revision means that income per head is higher than previously estimated, and aggregate public debt somewhat lower in relation to GDP. But the need for a significant fiscal adjustment, if Barbados's public finances are to be put on a sustainable long-term path, remains unaffected. The statistics presented in this report have been revised where applicable by the Ministry of Economic Affairs in accordance with the new GDP numbers.

12 Following a contraction in response to the 11 September 2001 events, the Barbados economy grew on average by 3-4 per cent a year in the period up to 2007. However, from 2008 onwards it has been very severely affected, in common with many of its neighbours, by the 2008 global financial crisis and associated recession. Tourism receipts and activity in the financial services sector have both been sharply reduced as a consequence of the recession.

The Central Bank of Barbados (CBB) estimates the overall impact on the economy as resulting in a reduction in GDP below the previously expected level of BD\$770 million, or about 10 per cent of GDP. Associated with this has been a sharp deterioration in the public finances; in 2008-09 revenue fell about 5 per cent below budget while expenditure was 4.5 per cent above budget. As a result the overall central government fiscal balance registered a deficit of about 5.5 per cent of GDP in 2008 (and about 7.9 per cent in 2009). Although it appears that in 2009-10 expenditure has been held down to 4 per cent below budget, the revenue shortfall consequent upon the overall contraction of the economy by more than 5 per cent is likely to be of the order of 15 per cent. The result has been a further increase in total government and government-guaranteed debt (net of sinking funds and government deposits) from 93.7 per cent of GDP at the end of 2008 to about 109 per cent at the end of 2009. Further deficits are inevitable until the world economy and Barbados's tourism receipts recover, implying a continuing deterioration in the debt/GDP ratio. The outlook for 2010 is for the economy at best to be flat: from 2011 onwards some very modest growth is in prospect provided that the recovery in Europe and North America does not falter.

13. It should be noted, however, that the focus on central government debt (generally gross of sinking funds and other government balances) may overstate the difficulty of the debt position. Some BD\$2 billion of central government debt is held by the National Insurance Scheme and the Central Bank, so that the ratio of net general government debt (including government-guaranteed debt which is often omitted from presentations of the overall debt position) to GDP is closer to 75 per cent. Nevertheless it remains essential to minimise further deterioration in the debt/GDP ratio, since a worsening debt position, particularly if financed from external sources, inevitably pre-empts an increasing proportion of both government revenue and the country's foreign exchange earnings.

14 There has been no recent assessment of the incidence of poverty in Barbados. Data are in process of collection for the purposes of a Household Budget Survey, and a Country Assessment of Living Conditions (CALC) is planned, with the assistance of the CDB. The most recent IMF Article IV consultations report put the incidence of poverty at 13 per cent of the population, while the 2009 compendium of National Statistics shows that 5 per cent of the population were estimated to be undernourished in 2004. Overall unemployment, at a little above 10 per cent, is clearly an important problem (but much less of a problem than it is in many of Barbados's smaller neighbours), a problem which is exacerbated by the very high incidence – two to three times the general adult rate - of youth unemployment.

2. DESCRIPTION OF BUDGETARY OUTCOMES

i. Fiscal performance (see Table 2.2)

15. During the period under review government revenue and expenditure were both growing moderately until 2006-07. But in 2007-08 there was significant growth in each of the main areas of expenditure, with public service pay, current expenditure on goods and services, and transfers and subsidies each absorbing more than an extra one per cent of GDP. At the same

time capital expenditure and interest payments also grew significantly. Despite a further increase in revenue as a proportion of GDP, the overall government fiscal deficit increased from 3.2 per cent of GDP in 2006-07 to 5.7 per cent in 2007-08. The global recession then led to a further increase in the fiscal deficit to 6.3 per cent in 2008-09, with a deficit exceeding 8.5 per cent in prospect for 2009-10 as the recession deepened. As Table 2.2 shows, the financing requirements were largely met from domestic resources, although in 2009-10 37 per cent of new borrowing came from external sources. In terms of the economic classification of expenditure, the major trend was the increasing share of expenditure allocated to transfers and subsidies, particularly payments to statutory bodies in the fields of health, higher education and transport. Capital expenditure, which has generally accounted for less than 15 per cent of government expenditure (Barbados has been spared the need to rebuild infrastructure following hurricanes or other natural disasters) increased up to 2007-08, but then fell back as the recession reduced available resources.

**Table 2.2 Out-turn of Central Government operations
(In percent of GDP)**

	2005-06	2006-07	2007-08	2008-09
Current revenue	35.1	34.2	36.5	34.9
Capital revenue and Grants	0.0	0.0	0.4	0.1
Total expenditure	36.4	37.4	42.3	41.3
Non-interest expenditure	31.6	32.2	36.6	35.7
<i>Of which:</i>				
Wages and salaries	11.1	10.8	11.9	11.1
Purchases of goods and services	3.8	4.1	5.3	4.6
Grants, subventions and transfers	12.5	12.2	13.2	14.7
Capital expenditure and net lending	4.1	5.1	5.5	3.5
Interest payments	4.8	5.0	5.6	5.4
Overall balance 1/	-1.3	-3.2	-5.7	-6.3
Current balance	2.8	1.9	-0.3	-2.9
Primary balance 2/	3.5	5.0	-0.1	-0.8
Financing	6.2	8.6	10.9	5.6
External financing	1.3	2.4	0.6	-1.0
Domestic financing	4.9	6.2	10.2	6.6

Sources: Ministry of Finance; and Central Bank of Barbados.

1/ Includes foreign grants.

2/ Excludes interest payments.

ii. Allocation of budgetary resources (see Table 2.3)

16. In the last four years, there has been a substantial increase in the share of government expenditure absorbed by General Public Services, which also include prisons and the administration of justice. Of the major public services, health increased its share of a rapidly rising total, while education, although growing moderately in monetary terms, saw its share in the overall total decline. As a percentage of GDP education remained roughly constant at about 7 per cent, while the proportion of GDP spent on health increased from 4.3 per cent in 2005-06 to over 6 per cent in 2008-09. Economic services continued to absorb about 14 per cent of

expenditure throughout the period; as a proportion of GDP their share increased from 4.6 per cent in 2005-06 to 6.0 per cent in 2008-09.

**Table 2.3 Actual budgetary allocations by function
(Percentages of total expenditure net of amortisation)**

	2005-06	2006-07	2007-08	2008-09
General Public Services	17.1	17.6	18.8	22.4
Defence	2.6	2.8	1.8	1.9
Education	21.3	21.3	17.0	17.0
Health	13.3	12.7	14.9	14.5
Social Security and Welfare	10.9	10.7	7.9	7.8
Housing, etc	3.6	3.5	2.7	2.7
Economic Services	14.3	13.0	14.2	14.3
Other	19.5	21.2	24.5	21.3
Total Programmes	100.0	100.0	100.0	100.0
Total Programmes (BD\$ excluding amortisation)	1984.2	2096.0	2736.9	3076.7

Source: Estimates Memoranda, Central Bank of Barbados Economic and Financial Statistics, IMF Article IV Report (2009).

3. LEGAL AND INSTITUTIONAL FRAMEWORK FOR PUBLIC FINANCIAL MANAGEMENT

i. Legal Framework

(a) The Constitution

17. The Barbados Constitution was promulgated in the Schedule to the Barbados Independence Order of 30 November 1966. Chapter VIII governs appointments in the public service, which are subject to decisions of the independent Public Services Commission (other Commissions supervise judicial, police and teaching appointments). This Chapter (section 102) also provides for the appointment of the independent Auditor-General. Chapter IX provides the basis for public financial management through the creation of the Consolidated Fund, and the requirement that Estimates of the next year's expenditure must be presented to Parliament in an appropriation Bill before the beginning of the year. Supplementary Estimates may be presented at any time thereafter, and a Final Appropriation Bill may be presented after the end of the year in question. Money may only be paid out of the Consolidated Fund if it is covered by a Warrant given by the Minister of Finance (who in practice is normally the Prime Minister).

(b) The Financial Management and Audit Act (FMAA) of 2007

18. The FMAA (which replaced earlier legislation of the same name) contains provisions covering public revenue and expenditure, the Treasury system, public debt and guarantees, public accounts, and external audit. It specifies the duties and responsibilities of the Minister of

Finance, the MoF Director of Finance and Accountant General, the Accounting Officers of spending Ministries and public officers in general. It provides the underpinning for the introduction of accrual accounting. It gives the Accountant General authority over all government bank accounts, and specifies how most receipts and payments should pass through Consolidated Fund bank accounts. It stipulates that only the Minister of Finance can propose expenditures to be included in an Appropriation Bill presented to the Parliament. It determines the arrangements for the enactment of the annual Appropriation Act which gives authority for the expenditure provided for in the Estimates, and for the approval of subsequent Supplementary Estimates. It also provides for the Cabinet to make Rules concerning the arrangements for implementing the different provisions of the Act, and gives the Director of Finance power to issue instructions about operational matters concerning implementation and accounting for the Budget. Government procurement continues for the time being to depend on subordinate legislation made under the 1971 Act which preceded the FMAA 2007.

19. The arrangements whereby amounts provided for in the approved Estimates are progressively released to the spending Ministries through quarterly and supplementary warrants are for the time being still governed by the Financial Administration and Audit (Financial) Rules (1971) which were issued under an earlier Act. New Rules have been drafted which will include the detailed provisions for accrual accounting as well as other changes to earlier arrangements, but they have not yet been formally approved by the Cabinet. The detailed provisions for accrual accounting are currently set out in Instructions issued by the Director of Finance; these will be included in the new Financial Rules when they come into operation. A Ministry may not spend beyond the amount authorised by the warrant for each sub-programme, with separate allocations for pay, capital expenditure, and other expenditure. It is further restricted, in that for each sub-programme it must remain within the annual limits set for expenditure under each Account Code (of which there are more than 40 covering different types of cash expenditure as well as others covering amortisation of capital equipment and other non-cash transactions). In practice a Ministry may use money in the warrant for one sub programme to meet expenditure in another provided it is within the same account code (e.g. statutory emoluments, utilities, supplies and materials) and it does not exceed the provision under the relevant account code in the sub programme in question for the year. If it cannot remain within both the sub programme and account code limits, the Ministry must apply for a Supplementary Estimate, even if it has savings on other sub programmes available to meet any excess. The consequence of this is that the Revised Estimates (i.e. including Supplementaries) almost invariably overstate the amount of spending in prospect by the Ministries concerned. It is understood that consideration is being given to the introduction of a system of virement of expenditure which would give Ministries a measure of freedom to reallocate provision between sub programmes and account codes, subject always to the constraint that the total original provision should not be exceeded.

20. A feature of recent years has been the establishment of statutory bodies (each set up under a separate Act of Parliament) to take over functions which were formerly the responsibility of Ministries directly, thereby freeing them from the constraints arising from the current prohibition of virement. Examples are the Barbados Defence Force, the Urban and Rural

Development Commissions and the Queen Elizabeth Hospital. As noted above, increasing amounts have been transferred to these bodies in recent years, without the details of their expenditure being disclosed in the Estimates. For the most part it is up to the sponsor Ministries to supervise the activities of bodies of this kind. However, the FMAA confirms the power of the Auditor-General to audit such bodies, even in cases where independent auditors have previously been engaged by the managements concerned. The Auditor-General's annual report summarises the extent to which these bodies are complying with their statutory obligation to present audited accounts to Parliament, and the extent to which he has been able to carry out any audit of his own. (A significant number of these bodies, including the extremely important National Insurance Scheme, are some years behind in presenting audited accounts)

(c) The Public Accounts Committee Act 2003

21. This Act sets out the structure, responsibilities and powers of the Public Accounts Committee. It is to be made up of six senators and seven members of the House of Assembly, and chaired by the Leader of the Opposition. It is to meet at least twice a year, to report annually to Parliament, to consider all reports by the Auditor-General, and to consider and advise on the budget to be allocated to the Audit Office.

(d) The Tax System

22. The main legislation governing taxation in Barbados is as follows:

- Income and Corporation Taxes
- Import Duties and Excise Taxes
- Value Added Tax
- Land and Property Transfer Taxes
- Motor Vehicle Taxes
- The National Insurance Scheme (NIS) functions as an independent Statutory Body, whose audited accounts should be submitted every year to the National Assembly. (The most recent such accounts relate to 2001 and 2002.) Although the government has ultimate responsibility for the payment of benefits should the funds of the scheme prove inadequate, NIS accounts are not consolidated with the rest of central government. In return for contributions over a period of at least 30 years, NIS provides a pension of 60 per cent of final earnings before retirement up to a ceiling of BD\$3990 a month. Total contributions for most employees are 21.35 per cent of earnings up to the ceiling of BD\$3720 a month (10.1 per cent paid by employees and 11.25 per cent paid by employers, including contributions for unemployment and sickness benefits, and environment and training levies). At present contributions substantially exceed benefits; the 2008 annual report shows contributions of BD\$527.9 million and benefit payments of BD\$365.2 million. Taking into account investment income of BD\$164.3 million and administrative expenditure of BD\$38.7 million, there was an overall surplus of BD\$294.0 million. Total net assets of NIS were about BD\$3 billion at the end of 2008, of which around 60 per cent was invested in government debt. Total NIS assets thus correspond to about half central government debt,

net of deposits and sinking funds. NIS aims to maintain a capital reserve of at least five years benefit payments.

ii. The Institutional Framework for PFM

23. Barbados is a parliamentary democracy closely modelled on the British Westminster system. The Barbados Independence Order, which established the Constitution of Barbados, granted the island independence from the United Kingdom on 30 November 1966. A Governor General is appointed by and represents the British Monarch. The Prime Minister is both leader of the majority party in the House of Assembly and the head of government. Constitutional amendments require the affirmative vote of a two-thirds majority of each House of Parliament. The State is divided into the executive, the legislature and the judiciary.

(a) The Executive

24. Presently, the Government comprises the following ministries:

1. Prime Minister's Office
2. Ministry of the Civil Service
3. Ministry of Health
4. Ministry of Home Affairs
5. Attorney General's Office
6. Ministry of Foreign Affairs and Foreign Trade
7. Ministry of Housing and Lands
8. Ministry of Transport and Works
9. Ministry of Education and Human Resource Development
10. Ministry of Tourism
11. Ministry of Community Development and Culture
12. Ministry of Finance, Investment, Telecommunications and Energy
13. Ministry of Labour and Immigration
14. Ministry of Youth, Family and Sports
15. Ministry of Economic Affairs and Empowerment, Innovation, Trade, Industry and Commerce
16. Ministry of the Environment, Water Resources and Drainage
17. Ministry of Social Care, Constituency Empowerment, Urban and Rural Development
18. Ministry of International Business and International Transport
19. Ministry of Agriculture

(b) The Legislature

25. There is a bicameral legislature, consisting of an elected House of Assembly and an appointed Senate. The House of Representatives is composed of 30 members elected in accordance with the provisions of the Constitution. The Governor General appoints the Senate's 21 members, twelve on the advice of the Prime Minister two on the advice of the Leader of the Opposition, and seven following consultations with different sections of society. The Barbados Parliament, unless dissolved earlier, continues for five years from the date of the

most recent general election. The Democratic Labour Party which had been in opposition since 1994 won 20 of the 30 seats in the general election early in 2008. The Prime Minister is the leader of the majority party in the House of Assembly and all the Ministers are members either of the House or the Senate.

(c) Statutory Bodies.

26. These are bodies established by statute which function as autonomous corporate bodies governed by Boards of Directors. Some of these bodies have their own revenue funds and do not require government subventions. Presently, these include at least 30 public corporations, regulatory entities and other agencies as follows:

- National Insurance Scheme
- Barbados Water Authority
- Barbados Transport Board
- Barbados Tourism Authority
- University of the West Indies
- Barbados Community College
- Barbados Defence Force
- Queen Elizabeth Hospital
- National Council on Substance Abuse
- Community Legal Services Commission
- Regional Police Training Centre
- National Cultural Foundation
- Invest Barbados
- Barbados Vocational Training Board
- Technical and Vocational Education and Training Council
- National Sports Council
- Barbados Investment and Development Corporation
- Barbados National Standards Institution
- Barbados Agency for Micro-Enterprise Development
- Sanitation Service Authority
- National Conservation Commission
- Caves of Barbados Ltd
- Rural Development Commission
- Urban Development Commission
- Air Transport Licensing Authority
- Barbados Port Inc
- Grantley Adams International Airport Inc
- Barbados Agricultural Management Company
- Barbados Agricultural Development and Marketing Company
- Barbados Tourism Investment Inc
- Barbados National Oil Company Ltd

The Government owns shares in the following private companies:

- LIAT
- Barbados National Bank Inc
- Insurance Corporation of Barbados Inc

3. ASSESSMENT OF THE PFM SYSTEMS, PROCESSES AND INSTITUTIONS

The purpose of the PEFA-based PFM assessment is to evaluate public financial management with focus on the central government and its functional performance through a set of 31 high-level performance indicators. These include 3 performance indicators assessing donor practices. In the case of Barbados, the focus is the central government which includes ministries, departments and other agencies (MDAs) currently operating in the country.

For the period in study, the central government includes the Office of the Governor General, the Parliament, the Supreme Court, the Barbados Audit Office, the Ombudsman, the Director of Public Prosecutions, and 19 ministries, including the Office of the Prime Minister, and other central agencies. Subventions and grants to statutory bodies and other public corporations are transferred to them by the MOF: their utilization should be reported in audited annual financial statements submitted to Parliament (although compliance with this requirement is very incomplete).

Many PEFA indicators require data for three years as the basis for the assessment. Data should cover the most recent completed fiscal year for which data is available and the two immediately preceding years. Thus, the PEFA assessment for Barbados is based on the experience of the fiscal years 2006-07, 2007-08, and 2008-09 (the fiscal year starts on April 1 and closes on March 31). The Budget for 2006-07 was prepared and accounted for on a cash basis; those for the following two years are on the accruals basis in accordance with International Public Sector Accounting Standards (IPSAS), subject to some transitional problems and adaptations. As far as possible, account is also taken of the experience of budget execution in 2009-10. As this is the second PEFA assessment for Barbados, comparisons can be drawn to indicate the trajectory of change for each performance indicator and each dimension thereof in the case of multi-dimensional indicators.

The following table summarises the 2006 and 2010 scores.

Comparison of PEFA PFM Performance Scores of 2006 and 2010

	2006	2010	Progress between 2006 and 2010
A. PFM-OUT-TURNS: (1) Credibility of the Budget			
PI-1 Aggregate expenditure out-turn compared to original approved budget	A	A	No change: satisfactory overall Budget execution.
PI-2 Composition of expenditure out-turn compared to original approved budget	B	C	Greater variability in composition of the Budget reflects difficult economic circumstances ¹ .
PI-3 Aggregate revenue out-turn compared to original approved budget	A	A	Still just meets criteria for A. Lower score would be given if 2009-10 were taken into account ² .
PI-4 Stock and monitoring of expenditure payment arrears	B+	Not Rated	
(i) Stock of expenditure payment arrears and a recent change in the stock.	A	Not Rated	Absence of exact data on arrears precludes rating, even though indications are that arrears are not a problem.
(ii) Availability of data for monitoring the stock of expenditure payment arrears.	B	NR	No mechanisms to track arrears, and no assurance that all obligations are registered.
B. KEY CROSS-CUTTING PFM-OUT-TURNS: (2) Comprehensiveness and Transparency			
PI-5 Classification of the budget	C	C	Credit given for more effective use of programmatic and basic functional classifications as well as administrative and economic classifications. But administrative/functional comparisons made more difficult by omission of details of investment expenditure.
PI-6 Comprehensiveness of information included in budget documentation	A	A	No change. 7 of 9 benchmarks satisfied.
PI-7 Extent of unreported government operations.	B+	D+	
(i) Level of unreported government operations	B	D	Rating reflects extent to which operations of statutory bodies (up to 15 per cent of total government expenditure) are not fully reported.

¹ This is based on revised figures for 2008/09 (previously supplied) that allocated capex estimates and actuals to line ministries

² I removed any reference to what the score would have been if 2009/10 were taken into account as I agree with the PEFA Secretariat's comment that this is "beside the point"

	2006	2010	Progress between 2006 and 2010
(ii) Income/expenditure information on donor-funded projects	A	A	No change. Full information available.
PI-8 Transparency of inter-governmental fiscal relations.	NA	NA	Data on sub-national governments not applicable to Barbados.
(i) Transparency and objectivity in the horizontal allocation amongst Sub national Governments	NA	NA	
(ii) Timeliness and reliable information to SN Governments on their allocations	NA	NA	
(iii) Extent of consolidation of fiscal data for general government according to sectoral categories	NA	NA	
PI-9 Oversight of aggregate fiscal risk from other public sector entities.	C	C	
(i) Extent of central government monitoring of autonomous entities and public enterprises	C	C	MoF does not receive full and timely information about the financial position and business plans of all statutory bodies.
(ii) Extent of central government monitoring of SN government's fiscal position	NA	NA	Data on sub-national governments not applicable to Barbados.
PI-10 Public access to key fiscal information	B	A	All benchmarks satisfied except publication of contract awards. (Credit given for availability of information on resources for secondary schools, even though comparable information not available about primary schools.)

C. THE BUDGET PROCESS

(3) Policy-based Budgeting

PI-11 Orderliness and participation in the annual budget process	A	A	
(i) Existence of, and adherence to, a fixed budget calendar	B	A	Calendar is respected, and normally gives Ministries sufficient time to prepare submissions.
(ii) Guidance on the preparation of budget submissions	A	A	Ceilings for Ministries given in budget preparation instructions in accordance with decisions by the Prime Minister.
(iii) Timely budget approval by the legislature	A	A	Compliance with Constitutional requirement for approval of Estimates before beginning of financial year.
PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting	D	C+	
(i) Multiyear fiscal forecasts and functional allocations	D	C	Most Ministries now producing projections for two following years with Budget submissions, although action not taken to bring later years figures into line with final decisions on Budget Estimates as submitted to Parliament.

	2006	2010	Progress between 2006 and 2010
(ii) Scope and frequency of debt sustainability analysis	<i>D</i>	<i>A</i>	Credit given for work done in consultation with IMF, which underlies the recently published Medium Term Fiscal Strategy.
(iii) Existence of costed sector strategies	<i>D</i>	<i>C</i>	Strategies in existence for most Ministries but not yet fully costed and made consistent with overall resource availability.
(iv) Linkages between investment budgets and forward expenditure estimates	<i>D</i>	<i>C</i>	Investments are part of each Ministry's strategy, but Ministerial decisions about investment projects to be undertaken are made on an ad hoc basis.

(4) Predictability and Control

PI-13 Transparency of taxpayer obligations and liabilities	<i>B</i>	<i>B</i>	
(i) Clarity and comprehensiveness of tax liabilities	<i>B</i>	<i>C</i>	Rating reflects extent of discretionary tax exemptions
(ii) Taxpayer access to information on tax liabilities and administrative procedures	<i>B</i>	<i>B</i>	Access to information via websites needs improvement for some taxes.
(iii) Existence and functioning of a tax appeal mechanism.	<i>B</i>	<i>A</i>	Arrangements appear satisfactory, although there have been few appeals.
PI-14 Effectiveness of measures for taxpayer registration and tax assessment	<i>C</i>	<i>C</i>	
(i) Controls in the taxpayer registration system	<i>C</i>	<i>C</i>	There is no single Tax Identification Number linked database across the revenue authorities...
(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations	<i>C</i>	<i>C</i>	There are substantial penalties for non-compliance, but resources are lacking for their effective enforcement.
(iii) Planning and monitoring of tax audit and fraud investigation programmes	<i>C</i>	<i>C</i>	Insufficient resources and inadequate coordination between inspection efforts for different taxes.
PI-15 Effectiveness in collection of tax payments	<i>NR</i>	<i>D+</i>	
(i) Collection ratio for gross tax arrears	<i>NR</i>	<i>D</i>	Net additional arrears in 2008-09 exceeded 2 per cent of total taxes collected.
(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration	<i>A</i>	<i>A</i>	No change.
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records, and receipts by the Treasury	<i>C</i>	<i>D</i>	No reconciliations are made between the accounts of individual taxpayers and the aggregate records of the revenue authorities and the Treasury.
PI-16 Predictability in the availability of funds for	<i>B+</i>	<i>B+</i>	

	2006	2010	Progress between 2006 and 2010
commitment of expenditures			
(i) Extent to which cash flows are forecasted and monitored	A	A	Cash flow forecasts now updated monthly in the light of actual expenditure and monthly expenditure projections included in Ministry submissions for their quarterly warrant allocations.
(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure	B	B	Ministries can be confident of the availability of cash in accordance with the expenditure warrants for the next quarter.
(iii) Frequency and transparency of adjustments to budget allocations above the level of management of MDAs	B	B	Restrictions on virement mean that all upward adjustments to budget lines are transparent. But MoF retains discretion not to authorise the whole of a Ministry's Budget allocations through the quarterly warrants.
PI-17 Recording and management of cash balances, debt and guarantees	B	B+	
(i) Quality of debt data recording and reporting.	B	A	Government debt data are complete, with up-to-date information readily available and regularly reconciled.
(ii) Extent of consolidation of the government's cash balances.	B	A	The Treasury controls all government bank accounts, and with minor exceptions all cash is consolidated through the Treasury's three main accounts.
(iii) Systems for contracting loans and issuance of guarantees.	C	C	The government's contracting of loans is well controlled by MoF, but there is less assurance about borrowing e.g. through bank overdraft by statutory bodies, where monitoring is incomplete
PI-18 Effectiveness of payroll controls	B+	B+	
(i) Degree of integration and reconciliation between personnel records and payroll data	A	A	There is complete integration between the Smartstream personnel information and payroll modules.
(ii) Timeliness of changes to personnel records and the payroll.	A	B	There are sometimes delays in the approval of the continuation of arrangements whereby officials are appointed on an acting basis to fill higher posts.
(iii) Internal controls of changes to personnel records and the payroll.	A	A	The requirement to notify and justify changes to the PAD at MCS, which then enters the changes into the payroll, ensures a sufficient audit trail.
(iv) Existence of payroll audits to identify control	B		The ongoing detailed reviews by

	2006	2010	Progress between 2006 and 2010
weaknesses and/or ghost workers.		B	OPSR of the use of manpower provide some element of audit assurance in this area. But the main assurance is provided by the 100 per cent independent verification by PAD at MCS of qualifications and experience in the case of all staff appointments, even where these are temporary.
PI-19 Competition, value for money and controls in procurement	D+	C	
(i) Use of open competition for award of contracts above the nationally established monetary threshold	D	D	No evidence available to confirm consistent use of competitive procurement methods.
(ii) Justification for use of less competitive procurement methods.	B	B	Deviations from open tendering (and for smaller contracts acceptance of a lower number of offers) are justified by reference to the 1971 Rules.
(iii) Existence and operation of a procurement complaints mechanism.	D	C	There are provisions for appeals against non-inclusion in lists of approved suppliers, and appeals can be made to the Courts on other procurement issues. But there is no dedicated procurement appeals machinery.
PI-20 Effectiveness of internal controls for non-salary expenditure	C+	C+	
(i) Effectiveness of expenditure commitment controls	B	C	Commitment controls are incomplete, because contracts extending beyond the current year are not registered, and Ministries do not always register purchase orders relating to contracts to be completed during the current year.
(ii) Comprehensiveness, relevance and understanding of other internal control rules/procedures.	C	B	Controls are well-established and understood, but may in some cases not be adapted to the current electronic environment. (There has been considerable delay in bringing into effect new rules under the FMAA 2007, which have still not (June 2010) been approved by Cabinet.)
(iii) Degree of compliance with rules for processing and recording transactions	C	B	The Smartstream system substantially ensures compliance with existing rules for processing and recording of financial transactions.
PI-21 Effectiveness of internal audit	D+	D+	
(i) Coverage and quality of the internal audit function.	D		Although approval has been given for the creation of internal audit posts in some major Ministries, these have not been filled, and internal

	2006	2010	Progress between 2006 and 2010
		D	auditors exist only in the Treasury, the Tax departments and the Ministry of Transport and Works. The Treasury internal audit staff undertakes some assignments in other Ministries and statutory bodies, but the coverage is very limited. A Charter is needed which will define the remit of the internal audit function throughout the government, and the standards applicable to the work.
(ii) Frequency and distribution of reports	C	C	Where internal audit tasks are undertaken, reports are issued to the audited entities and copied to the Director of Finance and the Auditor-General.
(iii) Extent of management response to internal audit function	D	C	The internal auditors in the Treasury and tax departments considered that some action was taken as a result of their reports, although there are no arrangements for government-wide tracking of recommendations and follow-up to them.
(5) Accounting, Recording and Reporting			
PI-22 Timeliness and regularity of accounts reconciliation	B	C+	
(i) Regularity of bank reconciliation	B	B	Major accounts are regularly reconciled, although there are some delays due to pressure of other work, and some unexplained differences because of problems with commercial bank procedures.
(ii) Regularity and clearance of suspense accounts and advances	B	C	Some less important Treasury-managed accounts are reconciled only at long intervals and subject to some delays. Some advances may remain outstanding for periods of years, although they are regularly tracked and eventually cleared when the recipients retire.
PI-23 Availability of information on resources received by service delivery units	D	B	Credit is given for the availability of information about resources going to health clinics and secondary schools (but not hospitals or primary schools).
PI-24 Quality and timeliness of in-year budget reports	C+	C+	
(i) Scope of reports in terms of coverage and compatibility with budget estimates.	C	C	Monthly reports covering revenue, expenditure and cash flow are produced within a few days of the end of each month. But these do not cover commitments.
(ii) Timeliness of the issue of reports	A	A	Very good
(iii) Quality of information	A	A	Information from the Smartstream system is comprehensive and fully

	2006	2010	Progress between 2006 and 2010
			reliable.
PI-25 Quality and timeliness of annual financial statements	C+	B+	
(i) Completeness of the financial statements	A	A	Financial Statements following the move to accrual accounting include all the required elements of information.
(ii) Timeliness of submissions of the financial statements	A	A	Unaudited financial Statements are submitted to Parliament within four months of the end of each financial year.
(iii) Accounting standards used	C	B	International standards are largely followed (with some transitional problems), and are explained in detailed Notes.
(6) External Scrutiny and Audit			
PI-26 Scope, nature and follow-up of external audit	C+	C+	
(i) Scope/nature of audit performed (including adherence to auditing standards)	B	C	As well as the audit of the Financial Statements, BAO carries out a range of compliance and performance/VFM audit throughout the government and statutory bodies. But the coverage of the compliance audit is limited by shortage of auditors, which also results in delays in producing the annual report.
(ii) Timeliness of submission of audit reports to the Legislature	B	C	Audit reports were submitted to Parliament in 2009 and 2010 more than eight months after receipt of financial statements.
(iii) Evidence of follow up on audit recommendations	C	C	Audit reports sometimes include auditees' responses to criticisms and recommendations, but BAO lacks the resources for regular follow-up of all recommendations.
PI-27 Legislative scrutiny of the annual budget law	D+	D+	
(i) Scope of the legislature scrutiny	C	C	The Legislature's review covers revenue and expenditure, but only at a stage when all important issues have been settled by the Executive.
(ii) Extent to which the legislature's procedures are well established and respected.	C	B	Procedures are formal, and do not include any specialised review committees.
(iii) Adequacy of time for the legislature to provide a response to budget proposals both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined)	D	D	Legislature has only a few days to review the Budget Estimates and no real opportunity to influence their overall shape.
(iv) Rules for in-year amendments to the budget	A		Full information is published about

	2006	2010	Progress between 2006 and 2010
without ex-ante approval by the legislature		A	any increases in any element of expenditure, since the absence of any provisions for virement means that Supplementary Estimates are almost invariably required, even though there may be no overall increase in a Ministry's expenditure.
PI-28 Legislative scrutiny of external audit reports	D	D	
(i) Timeliness of examination of audit reports by the legislature	D	D	No change. There has been no recent examination of any audit reports by the Public Accounts Committee.
(ii) Extent of hearing on key findings undertaken by the legislature	D	D	No recent hearings by the Public Accounts Committee in relation to any report by the BAO.
(iii) Issuance of recommended actions by the legislature and implementation by the executive	D	D	No recent action by the legislature, so no question of any response by the executive.

ASSESSMENT OF DONOR PRACTICES

D-1 Predictability of Direct Budget Support	NR	D	
(i) Annual deviation of actual budget support from the forecast provided by donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature	NR	D	No budget support expected or received in 2006-07. In 2007-08 receipts were 44% of Budget Estimate and in 2008-09 129%.
(ii) In-year timeliness of donor disbursements	NR	D	No forecasts provided of the timing of payments.
D-2 Financial information provided by donors for budgeting and reporting	B	NR	No information available about timing of receipts from lenders.
(i) Completeness and timeliness of budget estimates by donors for project support.	B	NR	
(ii) Frequency and coverage of reporting by donors on actual flows for project support.	NR	NR	
D-3 Proportion of aid that is managed by use of national procedures	D	C	No external funds fall outside government payment and reporting procedures, so criteria for C satisfied.

1. BUDGET CREDIBILITY

In order to evaluate whether the budget is sufficiently realistic and is implemented as planned, this section focuses on four indicators: (a) variances in aggregate expenditure, (b) variances in composition of expenditure, (c) variance in total income, and (d) balance of outstanding expenditure payments.

The first two indicators are based on expenditure data by administrative classification.

PI-1 Aggregate expenditure out-turn compared to original approved budget

(i) *Difference between real primary expenditure and originally-budgeted primary expenditure*

The ability to implement budgeted expenditure is an important factor in supporting the government's ability to deliver the public services for the year as expressed in policy statements. Budget credibility requires actual budgetary releases to be similar to voted budgets and requires appropriate fiscal discipline to be in place. The indicator reflects this by comparing the actual total expenditure with the originally budgeted total expenditure, but excludes two expenditure categories over which the government has little control: debt service payments and donor funded project expenditure (loans and grants). It also excludes amortization of debt (Note: the Government of Barbados migrated to accruals accounting in 2007/08, the second of the three years reviewed)

The evaluation indicates that, in one of the three years under review (2007/08), the actual expenditure exceeded approved budgeted expenditure by an amount equivalent to more than 5 % of budgeted expenditure (the exact figure was 7.3%). The variances for 2006/07 and 2008/09 were 1.1% and 4.4% respectively. The rating for this Indicator is accordingly A as it was in the 2006 assessment when the comparable figures had been 2.6%, 0.8%, 2%

In terms of budgetary allocations, the period saw greater variance from budget than had been the case during the period covered by the first PEFA assessment. The comparable figures are as follows:

2006 assessment: 3.5%, 5.6%, 3.2%

2010 assessment: 6.6%, 9.0%, 6.0%

A detailed breakdown by administrative head of expenditure is given in Annex 1. Analysis of the data for FY 2007/08, the year in which variance was greatest, indicates that the overspending was widespread, with 9 of the 10 biggest expenditure votes being exceeded by at least 10%.

Indicator	Score 2006	Score 2010	Explanation/Justification
PI-1 Aggregate expenditure out-turn compared to original approved budget			Scoring method M1
Difference between actual primary expenditure and originally-budgeted primary expenditure (in other words, with debt	A	A	In no more than one out of the last three years has the actual expenditure deviated from budgeted expenditure by an amount equivalent to

service charges excluded, and also expenditure on projects with external financing)			more than 5 % of budgeted expenditure.
---	--	--	--

PI-2 Deviations in composition of expenditure out-turn compared to original approved budget

- (i) *Degree to which the variation in the composition of primary expenditure has exceeded the global deviation in primary expenditure (as defined in PI-1) in the past three years*

This indicator measures the extent to which reallocations between budget lines have contributed to the variance in expenditure composition beyond the variance resulting from changes in the overall level of expenditure. The credibility of the budget is adversely affected by significant individual variances across functional expenditure lines. Such variances indicate that the budget has not been implemented in the manner originally intended. They may reflect weaknesses in any or all of budget formulation, execution, and monitoring.

Analysis of budget deviations for primary expenditure between budgeted amounts and actual out-turns by administrative unit shows that deviations were higher than the global deviation in primary expenditure in all three years under review. The percentages were 6.6%, 9.0% and 6.0% respectively. Thus, the reallocation between budget lines has contributed to the variance in expenditure composition beyond the variance resulting from changes in the overall level of expenditure (for detailed calculations see Annex 1).

In order to merit a score of B, the variance in expenditure composition must not exceed the overall deviation in primary expenditure by 5 percentage points in more than one of the last three years. Since this happened in all of the 3 years considered, the rating is C.

Indicator	Score 2006	Score 2010	Explanation/Justification
PI-2 Deviations in composition of expenditure out-turn compared to the original approved budget			Scoring method M1
(i) Degree to which the variation in composition of primary expenditure has exceeded the global deviation in primary expenditure (as defined in PI-1) in the past three years	B	C	Variation in the composition of expenditure exceeded the global deviation in primary expenditure by more than 5 percentage points in each of the past three years

PI-3 Deviations in aggregate revenue out-turn compared with the original approved budget*Actual revenue in comparison with estimates in the original approved budget*

Accurate forecasting of domestic revenue is a critical factor in determining budget performance, since budgeted expenditure allocations are based upon that forecast. Official data for the past three fiscal years (see Annex 1) show that the collection of actual domestic revenue was higher than the originally approved budgeted estimates in the 2006/07 and 2007/08 but around 5% lower than estimated in 2008/09 – a similar result to that in the first PEFA assessment, (The downward trend appears certain to have continued in 2009/10, for which preliminary figures suggest a much larger adverse variance of around 16-17%: if 2009-10 were taken into consideration the PEFA rating would be C.)

Overall, this was a good performance, but it could not prevent the recent deterioration, which reflects Barbados' heavy dependence on tourism and inward investment, both of which have been badly affected by the global economic downturn since 2008.

Analysis of the data shows a fair amount of volatility in individual tax revenues compared with budget. For example, revenue from both taxes on goods and services and taxes on property went from below budget to above budget and back to below budget over the three-year period. By contrast, revenue from taxes on income and profits, having been 35% above budget in 2006/07 fell back to almost 8% below budget in 2008/09.

Indicator	Score 2006	Score 2010	Explanation
PI-3 Deviations in aggregate revenue out-turn compared with the original approved budget			M1 Scoring Method
Actual income in comparison with estimates in the original approved budget	A	A	Actual domestic revenue collection was below 97% of budgeted domestic revenue estimates in no more than one of the last three years.

PI-4 Stock and monitoring of expenditure payment arrears*(i) Stock of expenditure payment arrears*

The GoB currently operates 10 modules of the Smartstream computerised financial management system (Purchases, Payables, General Ledger, Budget, Funds Control, Billing, Human Resources, Payroll, Supplies Management and Fixed Assets). This allows the operation

of a centralised payment system and a funds control system that do not permit the creation of a local purchase order without approved estimates and warrant. The financial management software maintains information on commitments so the government can see the amount outstanding on purchase orders at year end. It also provides information on amounts outstanding on invoices already entered into the system for payment, for which cheques have not yet been issued. However, a payment arrear will arise only when there is a delay in payment of more than the credit period allowed by suppliers in Barbados (normally 30 days); in practice the Treasury normally pays well within this period from receipt of payment instructions, in order to avoid the loss of the discount normally offered by suppliers for prompt payment. Payments outstanding at the end of 2008-09 were about 2.5 per cent of total expenditure during the year, but arrears would only have been a very small fraction of this. Arrears not registered in Smartstream can nevertheless arise where Ministries fail to enter invoices into the system as soon as they are received, with the result that the payment cheques are dated more than the stipulated number of days after the date the invoice is received (and the discounts thereby lost). In the particular cases of electricity and telephones, service disconnection deters the accumulation of arrears.

Contracts appear to be more problematic. Examples were cited of situations where contractors proceed with capital work in the absence of a (fully) voted amount or a proper contract, based on their experience that the GoB will pay in the end. Since Smartstream prevents the Accountant General from issuing a cheque for which there is no (remaining) budgetary provision, the likelihood is that there are payment arrears on contracts that are unknown to the GoB. Some Ministries have experienced particular difficulties in committing multiyear contracts, which have led to delayed payments, since each year's spending has to be approved in the Annual Estimates (although this should be more or less automatic once the project has been approved by the Ministerial Project Review Committee). Although there are no indications that businesses in Barbados regard delays in payments by the government as a problem, or that total arrears could exceed 10 per cent of total expenditure, there is no system in place which would generate reliable information about actual amounts of arrears. In the absence of such information, no rating is possible.

(ii) Availability of data to monitor the stock of expenditure payment arrears

There is no routine process of monitoring payment arrears. Individual line Ministries could, but typically do not, undertake a manual review of invoices submitted and payments made in accordance with them, in order to ascertain the level of arrears. The Smartstream software allows the production of a report by vendor that lists the date of receipt of invoice and date of payment but the usefulness of such a report is limited by the practice of line ministries of entering not the date of receipt of invoice but a later date. The general conclusion is that, whilst payment arrears are probably relatively small, they are not treated as an important issue unless individual suppliers complain about slow payment. Dimension not rated, reflecting absence of any information.

Indicator	Score 2006	Score 2010	Explanation
-----------	------------	------------	-------------

PI-4 Stock and Monitoring of expenditure payment arrears	B+	NR	M1 Scoring Method
(I) Stock of expenditure payment arrears	A	NR	Treasury normally pays promptly, and there are no indications that arrears not registered in Smartstream could exceed 10 per cent of total expenditure. But there is no hard information on actual amounts of arrears.
(ii) Availability of data in order to monitor the stock of expenditure payment arrears	B	NR	No data are available.

2. Comprehensiveness and Transparency

PI-5 Budgetary Classification

- i) *The classification system used to formulate, execute and provide information about the central government budget.*

This indicator evaluates the budgetary classification system used to formulate, execute, monitor and evaluate the GoB budget. The documents used have been the Approved Estimates and Accountant General's Reports. These show analyses of expenditure by administrative and functional classification, as well as by standard account code, which looks at the type of expenditure in terms of operating expenses (with 13 components), statutory expenses (6 components), debt service (3 components) and capital expenditure (2 components) – in other words, a form of economic classification. Each Ministry's expenditure is broken down by programme and sub-programme.

The summary presentation on a functional basis comprises 9 categories that are largely consistent with the Classification of Functions of Government (COFOG) standard 10 categories. However, the Accountant-General's recent reports (including the 2008-09 Financial Statements) do not give a functional or administrative breakdown of investment expenditure, and figures for each Ministry are for current expenditure only. Since the administrative/functional allocation of investment expenditure is not readily available from published sources, separate arrangements had to be made to obtain it from the Smartstream accounting system. Comparisons over time are also made more difficult by the reorganization of Ministries, which change the administrative classification from one year to the next.

The GoB's account code is broken down into administrative (Head), programme, sub programme and economic classifications, the last-named on the basis of groupings of item and sub - item codes.

Compared with 2006, performance has improved with the more effective use of functional and programmatic classifications, but these improvements are offset by the greater difficulty of tracking investment expenditure by Ministry.

Indicator	Score 2006	Score 2010	Explanation/Justification
PI-5 Classification of the Budget			M1 Scoring method
(i) The classification system used to formulate, execute and inform about the central government budget	C	C	The budget formulation and execution is presented in summary form in accordance with economic and functional classifications using GFS/COFOG standards. The detailed budget formulation and execution is presented on the administrative classification basis, broken down by programme and sub-programme. But the exclusion of investment expenditure from the administrative presentation represents a loss of information previously available.

PI-6 Budgetary Comprehensiveness

The documentation relating to the annual appropriation bill presented to the Legislature for its scrutiny and approval should provide a complete picture of the central government's fiscal forecasts, and budgetary distribution and results from previous years. In this sense, this indicator evaluates whether sufficient documentation has been included with the most recent appropriation Bill presented to the Legislature (i.e.2010-11) in order to achieve this objective.

Information Contained in Budget Documentation

Documentary Requirement	Fulfilled	Document
1. Macroeconomic assumptions, including aggregate growth, inflation and interest rate estimates, at the very least.	<u>Yes</u>	This information is included in the Budget Brief given to Parliament with the draft Estimates.
2. Fiscal deficit.	<u>Yes</u>	Included in Annual Estimates with both GoB's and IFIs' definitions provided.
3. Deficit financing	<u>Yes</u>	Information on deficit financing is provided in the Memorandum prefacing the detailed

		Estimates in recent years, although the order of the tables has varied from year to year.
4. Public debt balance.	<u>Yes</u>	Information is provided in the Estimates Memorandum, while Appendix D to the Estimates gives a detailed Statement of Public Debt & Sinking Fund as at 31st December;
5. Financial Assets.	<u>No</u>	Information is provided for investments and special funds, but not for government bank deposits and other short term financial assets (which are, however, shown in the subsequent Financial Statements).
6. Prior Year's Budget Outturn (2007.08).	<u>Yes</u>	The detailed estimates provide actual expenditure for the previous year, revised estimates for the current year and any increase or decrease between current year's originally approved estimate and budget proposal (It should be noted that some tables show expected out-turn for the current year, while others show revised budget (including supplementary Estimates, which almost invariably exceed eventual actual expenditure).)
7. Current year's budget (either the revised budget or the estimated outturn), presented in the same format as the budget proposal.	<u>Yes</u>	See above
8. Summarized budget data for both revenue and expenditure according to the main heads of the classifications used (ref. PI-5), including data for the current and previous year.	<u>Yes</u>	Revenue and Expenditure are summarised by economic classification for prior year actuals and current year approved and revised provisions.
9. Explanation of the budget implications of new policy initiatives with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to expenditure programs.	<u>No</u>	Although departments are now required to submit three-year plans with indications of costs, these are not presented to the Legislature

Proportion of information contained in the budgetary documentation published most recently by the central government.

As in 2006, recent budget documentation fulfils 7 of the 9 information benchmarks, qualifying for the top score of A

Indicator	Score 2006	Score 2010	Explanation
PI-6 Comprehensiveness of information included in budgetary documentation			M1 Scoring method
(i) Proportion of information mentioned above and contained in the most recent budgetary documentation published by the central government.	A	A	Recent budget documentation fulfils 7 of the 9 information requirements

PI-7 Extent of unreported government operations

- i) Level of extra-budgetary expenditure (other than donor-funded projects) that is not declared – in other words that does not appear in fiscal reports.*

Information is lacking both in the Estimates and the Annual Financial Statements about expenditure on certain core Government services. Most notable among these are the Queen Elizabeth Hospital and the Barbados Defence Force, but there are numerous other examples. In each of these cases, the only financial information provided is the amount of the annual transfer that is made to fund the service. Overall, about 15 per cent of Estimates provision for 2010-11 consists of transfers to statutory bodies. There is no readily available up-to-date indication as to how the transfer is planned to be spent or how it is actually spent. For example the last audited annual financial statements for the Hospital were for the financial year 2005/06, though the Ministry of Health does receive a detailed draft Estimate (which is not published) as part of the annual Ministry-wide budgeting process. To the extent that government agencies and statutory boards finance part of their expenditure from own revenues or borrowing, no details are published in the context of the main Estimates, while their subsequent financial reporting is in many cases late and incomplete. Given the range and importance of statutory bodies, their unreported expenditure (i.e. expenditure in excess of the amounts of the transfers) could amount to 5 per cent of total budgeted expenditure, while their total expenditure, which is not reported in detail alongside the main Budget, constitutes at least 15 per cent of the overall total net of debt repayments. This indicates a rating D for this dimension.

The 2006 rating for this dimension was B but the scale of the problem is now considerably greater.

ii) *Information on income and expenditure in relation to projects financed by donors included in the fiscal reports.*

Donor funded project expenditure in Barbados has recently been very small (no more than 2% of total expenditure) as the country is no longer eligible for World Bank (apart from a regional HIV/AIDS Project)³, UN and many bilateral sources of concessionary funding. Information on the income/expenditure of the projects funded by IFIs and the EU is included in the relevant fiscal reports.

Indicator	Score 2006	Score 2010	Explanation
PI-7 Extent of unreported government operations	B+	D+	M1 Scoring Method
(i) Level of unreported extra-budgetary expenditure (as distinct from that for projects financed by donors)	B	D	The level of unreported extra-budgetary expenditure by statutory bodies over and above the funds transferred to them through the Budget could amount to 5 per cent of total expenditure. Because of the separate status of statutory bodies, at least 15 per cent of total expenditure on the provision of public services is not reported in a timely and consistent way.
(ii) Complete income/ expenditure information for 90% (value) of donor funded projects is included in fiscal reports, except aid in kind OR donor funded project expenditure is insignificant (below 1% of total expenditure)	A	A	Financing of major projects through the IDB, CDB, WB and EU is included in the estimates and the accounts. Aid in kind is currently not included in reports but is almost certainly insignificant. <i>Source of information; Acc Gen report and Estimates</i>

PI-8 Transparency of inter-governmental fiscal relations

³ The IMF's 2009 Article IV report notes that the World Bank may be considering the resumption of policy-based lending to Barbados.

Since there is no sub national government in Barbados, this indicator does not apply. Many activities often associated with sub national government are carried out by statutory boards e.g. Rural and Urban Development Commissions.

PI-9 Oversight of Aggregate Fiscal Risk caused by other public sector public entities

i) Degree of central government monitoring of the main autonomous public organisms and state companies.

There are a number of reports which are or should be produced by or on the activities of statutory boards/ corporations and government owned companies. These include:

- Report on contingent liabilities in terms of loans guaranteed by government – Report of the Accountant General –which the Minister of Finance is required to lay before the House of Assembly (Section 22(2f) of the Financial Management and Audit Act, 2007)
- Audited financial statements of the statutory boards/corporations which should form part of the budget submission documentation. These statements should be provided to the parent ministry and to the MoF (Management Accounting Unit (MAU)) as well as being presented to Parliament for examination by the Public Accounts Committee (PAC). Government owned companies are also required to provide audited financial statements to the PAC. Requests for loan guarantees to be approved by Parliament also require the submission of the relevant audited financial statements.

However, there appears to be no consolidated overview of the financial position of the statutory bodies or the risks they might impose on central government. Moreover, the quarterly reports that are required to be submitted to the MAU are often late or, in some cases like the Queen Elizabeth Hospital, non-existent (as are the annual financial statements). Under the FMAA (2007), the Auditor General has the duty of reporting to Parliament on the audit of all Statutory Boards, Government companies and other controlled entities. However, some of the statutory bodies continue to have private sector auditors. The status of their financial statements and audits is reported to Parliament by the Auditor General who may also audit them himself. The latest report of the Auditor General for the year (ending 31 March) 2009 states that most of the entities are up-to-date in their financial reporting but that “there are still a number who are several years in arrears”.

Given the incomplete nature of reporting, auditing, and monitoring it has to be concluded that the current oversight arrangements in respect of fiscal risk are inadequate. (The second dimension of this indicator which looks at monitoring of sub-national governments’ finances does not apply to Barbados.)

There has been no change in this indicator from 2006.

Indicator	Score 2006	Score 2010	Explanation
PI-9 Oversight of aggregate			

fiscal risk caused by other public sector institutions			M1 Scoring method
Degree to which the central government monitors the autonomous government agencies (AGAs) and public enterprises (PEs).	C	C	Most major AGAs/PEs submit fiscal reports to central governments at least annually. Some monitoring takes place but a consolidated overview is missing.

PI-10 Public access to key fiscal information

i) Number of the elements regarding public access to information

The transparency of key fiscal information is evaluated by determining the availability and ease of access to relevant documentation to the public, or at least to interest groups, and also the quality and completeness of the information made available and the timeliness with which the information becomes available. This evaluation focuses on the dissemination practices related to the last completed fiscal year, that is, FY 2008/09.

The evaluation of this indicator is based on the number of elements listed in the table below to which the public had access to information. The rating has increased from B to A on the grounds that the provision of information about resources available to primary healthcare units and secondary schools adds a sixth component to the information provided..

Indicator	Score 2006	Score 2010	Explanation
PI-10 Public access to key fiscal information			M1 scoring method
Number of elements listed above regarding public access to information that is fulfilled.	B	A	The government makes available 5 of the 6 listed types of information. Some of this is available on line and more is planned though there have been some delays.

<p>(i) Annual budget documentation: A complete set of documents can be obtained by the public through appropriate means when it is submitted to the legislature.</p>	<p>Yes Annual budget documentation is available in printed format and copies of the estimates should be lodged with libraries. The debate on the Estimates is open to the public and is on both TV and radio.</p>
<p>(ii) In-year budget execution reports: The reports are routinely made available to the public through appropriate means within one month of their completion.</p>	<p>Yes. In year budget execution reports become public documents when tabled with Parliament (usually within four months of the end of the month in question). Other than at the start of the year, there are no significant delays between completion of the reports and their being made available to Parliament and the general public.</p>
<p>(iii) Year-end financial statements: The statements are made available to the public through appropriate means within six months of completed audit.</p>	<p>Yes. Yes the Report of the Accountant General is available to the public in printed format at the time it is submitted for audit (four months after the end of the Fiscal Year). The Accountant General's website is expected to open in the second half of Fiscal Year 2010/11.</p>
<p>(iv) External audit reports: All reports on central government consolidated operations are made available to the public through appropriate means within six months of completed audit.</p>	<p>Yes The Auditor General's annual report 2009 and several special audit reports are placed on the Office's website at www.bao.gov.bb</p>
<p>(v) Contract awards: Award of all contracts with value above approx. USD 100,000 equiv. is published at least quarterly through appropriate means.</p>	<p>No</p>
<p>(vi) Resources available to primary service units: Information is publicized through appropriate means at least annually, or available upon request, for primary service units with national coverage in at least two sectors (such as elementary schools or primary health clinics).</p>	<p>Yes. Information is made available in respect of all primary health care units (but not hospitals) and all secondary schools (but not primary schools).</p>

3. Policy-Based Budget Process

The indicators in this group assess the extent to which the budget reflects government policy.

PI-11 Orderliness and participation in the annual budget process

This indicator considers the following dimensions of the annual budget process:

- i) existence of and adherence to a fixed budget calendar;
- ii) political involvement in the guidance on the preparation of budget submissions; and
- iii) timely budget approval by the legislature.

Barbados has a well-developed and systematic annual budget process. A Budget Circular approved by the Prime Minister provides instructions and guidance to Ministries and Departments for the preparation and submission of Draft Revenue and Expenditure Estimates and related documentation for the forthcoming financial year. The most recent of these – in respect of FY 2010/11 - was issued on 14 September 2009, six and a half months prior to the start of the budget year. The Circular allows departments 2 months to submit their draft estimates – one week earlier for the Schedule of Emoluments. In practice, line Ministries begin their preparations in advance of the issue of the Circular, which includes expenditure ceilings within which each Ministry should plan. Following detailed discussions between MoF Budget Department and line Ministries, in the course of which Ministries may have to reduce their proposals below the originally indicated ceilings, consolidated proposals are put to the Cabinet in January each year, normally reflecting the outcomes of the bilateral discussions. In the exceptional circumstances of 2010-11, further expenditure reductions were made in the context of the final Cabinet discussions, without further consultation with line Ministries.

The budget process fully reflects political policy and priorities. The governing party's manifesto is typically the starting point within which ministries prepare their budgets. The Minister of Finance, who in Barbados is also the Prime Minister, approves the budget ceilings before distribution to line ministries. An Estimates Committee, chaired by the Minister of Finance, reviews all budget proposals before submission to Cabinet at the beginning of March. A subcommittee of Cabinet, the Project Review Committee, approves all projects to be included in the Public Sector Investment Programme (PSIP).

In accordance with the Financial Management and Audit Act 2007, the Estimates are approved before the start of the budget year. The approval dates for the last 5 years have been as follows:

FY06/07	24 March 2006
FY07/08	23 March 2007
FY08/09	25 March 2008
FY09/10	24 March 2009

FY 10/11

19 March 2010

The overall score is unchanged from 2006, the only difference being a higher rating for dimension i) because the Budget Circular has been issued in a timely manner during the period under review

Indicator	Score 2006	Score 2010	Explanation
PI-11 Orderliness and participation in the annual budget process	A	A	M2 scoring method
(i) Existence and observance of a fixed budgetary calendar	B	A	A clear annual budget calendar has been established by tradition, is adhered to, and generally allows MDAs enough time to complete their detailed estimates on time.
(ii) Guidance on the preparation of budget submissions	A	A	The budget circular give s clear and comprehensive guidance on the preparation of budget submissions and budget ceilings are given.
(iii) Timely approval of the budget by the Legislature	A	A	Parliament has approved the budget before the start of the fiscal year during the last three years.

PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting

This indicator looks at the link between budgeting and policy priorities from the medium term perspective and the extent to which costing of the implications of policy initiatives is integrated into the budget formulation process. In particular, it assesses the following:

- i) multi-year fiscal forecast and functional allocations;
- ii) scope and frequency of debt sustainability analysis;
- iii) existence of costed sector strategies; and
- iv) linkages between investment budgets and forward expenditure estimates.

i) *Preparation of fiscal forecasts and multi-annual functional allocations*

Since FY05/06 the GoB has been introducing and expanding the practice of multi-year budgeting (MYB), albeit with a two-year suspension in FY 07.08 and FY 08/09 while the migration from cash accounting to accrual accounting took place. With the addition of the Ministry of Education in FY 10/11, MYB is now present in 12 major Ministries, covering the largest spenders. The process requires Ministries to submit their draft Estimates for each

of the budget year and the following two years. The first of the two “outer years” then becomes the indicative budget ceiling for the following period and a further outer year is then added to form the third year of the new cycle. An attachment to the Budget Circular contains detailed guidance on the application of MYB. However, the 2010-11 Estimates as finally presented to Parliament included further reductions below expenditure levels previously discussed with line Ministries, and these changes were not carried through to the second and third years. Thus there are not as yet detailed three year plans for each Ministry consistent with the overall resource framework.

A Medium Term Fiscal Strategy (MTFS) was prepared in January 2010, which provides the framework in which budgeting takes place. The MTFS has set the ambitious target of a balanced budget by 2014/15 and a small surplus in the following year. The 2010/11 budget has been framed within this policy environment and a range of strategies has been outlined to achieve these goals. Prominent among these are the reduction of transfers to statutory bodies and the close control of government pay costs. Ministries are being required to provide a full justification for the filling of vacant posts and a pay freeze is under consideration. But these strategies have not yet been translated into specific policy measures in defined time-scales. Rating for this dimension: C

ii) Scope and frequency of debt sustainability analysis

Debt Sustainability Analysis is undertaken in discussion with the IMF as part of the IMF’s annual Article IV surveillance. The importance of debt sustainability analysis emerges clearly from the government’s MTFS, which is predicated on the need to bring under control the present fiscal situation in which government debt as a proportion of GDP is increasing unsustainably. Rating for this dimension: A

iii) Existence of sector strategies with multi-year costing of recurrent and investment

Some progress is being made in this area as Ministries are now required to produce three-year Programme Budget Documents. These give information about the planned development of the various programs that fall within the Ministry but they are neither fully costed nor consistent with the overall fiscal envelope as presented in the MTFS. Rating for this dimension: C

iv) Linkages between investment budgets and forward expenditure estimates.

Capital investments that span more than one year require to be formally approved as part of each year’s annual budget. However, while there is no guarantee that a project, once started will necessarily receive the amount of funding requested in the next year, in practice those in progress will usually be accorded a priority status within the available financial resources. There appears to be no documented Public Sector Investment Programme that reflects government policy priorities, although the selection of projects each year by the Projects Review Committee was stated to be informed by the government’s current priorities (environment, housing and energy). Programme budgets for the three year time horizon should include the current expenditure implications of new facilities coming into

use, but in practice operation and maintenance budgets tend to come under pressure in times of financial constraints. Rating for this dimension: C

This aspect of PFM has seen significant improvement in performance since 2006 with all four dimensions recording higher scores.

Indicator	Score 2006	Score 2010	Explanation
PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting	D	C+	M2 scoring method
(i) Multi-annual fiscal forecasts and functional allocations	D	C	Forward estimates of fiscal aggregates are prepared for three years but not linked to annual budget ceilings.
(ii) Scope and frequency of debt sustainability analyses	D	A	DSA for external and domestic debt has been undertaken annually in the last three years.
(iii) Existence of sectoral strategies with cost determination	D	C	Statements of sector strategies exist for several major sectors but not all are fully costed.
(iv) Links between investment budgets and future expenditure estimates	D	C	Although medium-term expenditure plans by each Ministry should allow for the current expenditure implications of new investments coming on-stream, the links between the planning of future current and capital expenditure still need further development.

4. Predictability and Control in Budget Execution

This set of indicators reviews the predictability of funds for budget execution and the internal controls that seek to ensure that the budget is well executed.

PI-13 Transparency of taxpayer obligations and liabilities

This indicator assesses the transparency of tax administration by reviewing: i) clarity and comprehensiveness; ii) taxpayer access to information; and iii) functioning of a tax appeals mechanism.

i) Clarity and Comprehensiveness of Tax Liabilities

Legislation and procedures for all major taxes are generally comprehensive and clear, but there are concerns over the exercise of discretionary powers. Exemption powers are granted by all tax legislation to the Minister of Finance and are widely used as a means of attracting investment to the island. There appears to be limited transparency attached to these exemptions. Their revenue implications are significant and these need to be set against the (difficult to quantify) economic benefits that may accrue from investment that otherwise might go elsewhere. Rating for this dimension: C

ii) Taxpayer access to information

Taxpayers can obtain essential information about all major taxes from the responsible revenue authorities, although access could be improved through greater use of websites like that of the Inland Revenue Department (IRD). (VAT and Customs websites are not currently operational (June 2010).) Major importers have direct access to Asycuda++ and the VAT department provides starter packs and assistance to newly registered businesses. The IRD made special efforts to familiarise taxpayers with the procedures for on-line filing of tax returns that was introduced in 2009. These included the provision of clinics at various locations and the establishment of a special office to deal with queries. Rating for this dimension: B

iii) Existence and functioning of a tax appeals mechanism

All taxes in Barbados have a well-established mechanism for dealing with tax liability disputes. This may involve an independent tribunal (VAT and Income Tax) or arbitrator (Customs) but disputes are usually settled amicably and recourse to the High Court, though available in law, is very rare.

The overall score remains the same as in 2006 at B but there have been two changes to the dimension scores, The problem of discretionary and non transparent tax exemptions impacts negatively on dimension i) whilst dimension iii) gives full credit for the taxpayer appeals mechanisms in place.

Indicator	Score 2006	Score 2010	Explanation
PI-13 Transparency of taxpayers' obligations and liabilities	B	B	M2 scoring method
(i) Clarity and comprehensiveness of tax liabilities	B	C	Tax legislation is clear and comprehensive but liability to tax is significantly reduced by the granting of discretionary exemptions that are widely available without adequate transparency as to their basis.
(ii) Access by taxpayers to information about responsibilities and administrative procedures in relation to taxes.	B	B	Access is generally good and comprehensive but more use of websites would be beneficial to taxpayers.

(iii) Existence and functioning of a tax appeals mechanism.	B	A	Barbados has a clearly-defined and effective tax appeals system operated through independent institutional structures,
---	---	---	--

PI-14 Effectiveness of measures for taxpayer registration measures and tax assessment

(i) Application of controls in the taxpayer registration system

There is no unique tax identification number and no linked database across the tax authorities. Taxpayers for VAT and Inland Revenue use the company registration number as part of their identification. The VAT division has limited access to the ASYCUDA system. Sharing of information between the VAT division, the Treasury and the IRD on tax liabilities and refund entitlements needs to be improved. This might be achieved if a Central Revenue Authority (CRA) is established as envisaged in the MTFs. Rating for this dimension: C

(ii) Effectiveness of sanctions for failure to register and declare for tax purposes

There are significant amounts of tax arrears which might be interpreted as a sign that sanctions have limited impact upon tax delinquents. Penalties for late filing are quite substantial, however, comprising 1% a month of the amount due and a late filing fee of BD\$100 in the case of the IRD. The VAT Unit lacks resources to identify and pursue unregistered taxpayers, although the progressive extension of an IT environment into the field of taxation, with third party information e.g. about interest or consultancy fees paid becoming conveniently accessible to the tax authorities, should contribute to improving compliance. Rating for this dimension: C

(iii) Planning and control of tax auditing programmes

The ability of revenue departments to carry out tax audits is mixed. While Customs - where the establishment of liability is usually relatively straightforward and payment has to be made before goods are released - reported no problems, the VAT Division remains severely hampered by staff shortages, having only 12 audit staff in post out of an approved establishment of 30. The IRD's output has reduced significantly over the last 2 years while the new E-filing system has been established. This situation may improve if the plan to establish a Central Revenue Authority by the end of FY 2010/11 is implemented, so allowing better planning and use of scarce human resources. Customs began using a system based approach in 2009 to supplement its risk-based inspections of goods imported but have only one internal auditor, while IRD uses a risk-based approach to its inspections of the affairs of individual and corporate taxpayers. Rating for this dimension: C

There is no change in the scores from 2006.

Indicator	Score 2006	Score 2010	Explanation
PI-14 Effectiveness of measures for taxpayer registration and tax assessment	C	C	M2 scoring method
(i) Application of controls in the taxpayer registration system	C	C	There is no single Tax Identification Number linked database across the revenue authorities.
(ii) Effectiveness of sanctions for failure to register and declare taxes	C	C	Penalties for non compliance with tax declaration exist and are significant but arrears are substantial
(iii) Planning and control of tax audit programmes	C	C	Tax audits are severely constrained in the VAT Section by staff shortages, and are not coordinated as between the tax departments.

PI-15 Effectiveness of tax collection

- (i) The Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of fiscal year, which was collected during that fiscal year (average of the last two fiscal years)

The following table shows actual receipts for the main taxes in 2007-08 and 2008-09, together with gross outstanding arrears at the end of each year. It is not possible to analyse the change in total arrears from one year to the next as between earlier arrears paid off and new arrears accruing.

BD\$m

	Actual Receipts 2007-08	Arrears April 08	Actual Receipts 2008-09	Arrears April 09
Corporation Tax	520.4	44.8	447.3	49.7
PAYE (net)	339.5	145.3	375.5	160.8
VAT (net)	801.3	196.2	799.8	223.8
Total	1661.2	386.3	1622.6	434.3

Source: Revenue Departments

Thus the net increase in arrears during 2008-09 corresponds to 3.0 per cent of total revenue collected. Gross arrears in April 2009 were 26.8 per cent of 2008-09 total revenue. Rating for this dimension: D.

- (ii) Effectiveness of the transfer of tax payments to the Treasury by the revenue administration

Banking and accounting arrangements are prompt and efficient. Banking takes place on a daily basis and receipts are accounted for to the Treasury account using the interface with the Smartstream accounting software, although the IRD has experienced some problems with this. Rating for this dimension: A

- (iii) Frequency of complete accounts reconciliations covering tax assessments, collections, arrears records and payments to the Treasury

The VAT Division of Customs and Excise Department states that in the absence of an accounts division, no detailed reconciliations are undertaken between the records of amounts assessed and collected and the accounts of individual taxpayers. In respect of Inland Revenue, the Accountant-General seeks to reconcile annually Treasury carrying book balances with those of IRD, but it does not appear that any reconciliations are made between the accounts of individual taxpayers and aggregate amounts of revenue collected and arrears outstanding. Dimension score: D.

Indicator	Score 2006	Score 2010	Explanation
PI-15 Effectiveness of tax collection	C+	D+	M1 scoring method
(i) Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of fiscal year, which was collected during that fiscal year (average of the last two fiscal years)	NR	D	Gross arrears at April 2009 amounted to 26.8 per cent of revenue collected in 2008-09. The net increase in arrears in 2008-09 amounted to 3.0 per cent of revenue for the year.
(ii) Effectiveness in the transfer of recovered taxes to the Treasury by the revenue administration	A	A	Arrangements are sound and efficient and all tax revenue is paid into the Treasury.
(iii) Frequency of complete reconciliation of accounts by the Treasury, including tax valuations, recovery, registers of late payments and income.	C	D	No reconciliations are undertaken in respect of individual taxpayers' VAT accounts. Annual reconciliations take place between the balances on the Treasury books and the records of Inland Revenue, but these do not extend to the accounts of individual taxpayers.

PI- 16 Predictability in availability of funds for commitment of expenditure

- i) Degree to which cash-flow forecasts and monitoring are carried out

Line ministries prepare an annual cash flow forecast and update this quarterly when they submit requests for their quarterly warrant allocation. Ministries provide a monthly cash flow forecast as part of their applications for their warrant allocations. Treasury, Central Bank of Barbados (CBB) and other MoF representatives review the overall situation in terms of revenue and expenditure flows on a monthly basis. Rating for this dimension: A

- ii) Reliability and time horizon of the information on maximum limits and payment commitments provided to the MDA during the year

The quarterly MoF warrants give line Ministries assurance that cash will be available to meet commitments within those amounts. Rating for this dimension: B

- iii) Frequency and transparency of adjustments to budgetary allocations at a level higher than MDA administrations

Supplementary Estimates are a regular feature of the GoB budgetary system, reflecting in particular the rigidity of a system in which virement between programmes and sub-programmes is not permitted under the applicable legislation. Thus if more money is required for a particular sub-programme, a Supplementary Estimate is unavoidable, even if the Ministry in question has offsetting savings on another sub-programme. Such adjustments are therefore transparent, although the total of original Estimates and all Supplementaries almost invariably exaggerates the amount of funding eventually required. MoF retains discretion not to authorise through the warrants the whole amounts voted in the Estimates, and may even cut back allocations to amounts lower than the original Estimates if the difficulty of the situation requires this, but such adjustments in the latter part of a fiscal year would normally be the subject of consultation between MoF and line Ministries concerned. Dimension score: B

There is no change on the 2006 scores on this indicator.

Indicator	Score 2006	Score 2010	Explanation
PI-16 Predictability of availability of funds for commitment of expenditure	B+	B+	M1 scoring method
(i) Degree to which cash flow forecasting and monitoring is carried out	A	A	A cash flow forecast is prepared for the year ahead, and updated monthly in the light of requests for warrant releases.
(ii) Reliability and time horizon of the periodic information during the year providing the MDAs with information about maximum limits and payment commitments	B	B	Line Ministries have reasonable assurance that funds will be available to meet commitments within the quarterly ceilings set by MoF.
(iii) Frequency and transparency of the adjustments made to the budgetary allocations available at a level higher than MDA administrations	B	B	Numerous adjustments are made to original budget provisions through Supplementary Estimates. MoF retains the possibility not to release through the quarterly warrants the full amount of approved Estimates, although this would normally be the subject of discussions with the spending departments.

PI-17 Registration and Oversight of Cash Balances, Debt and Guarantees

i) Quality of debt data recording and reporting

Debt management functions are shared between the Ministry of Finance, Treasury (which has the main responsibility) and the Central Bank of Barbados (CBB). The Treasury produces a summarised monthly report, internal quarterly report and fully detailed annual debt report. Score for this dimension: A

ii) Degree of consolidation of the government's cash balance

The Treasury maintains 3 current accounts, one each at the CBB, First Caribbean International Bank and the Barbados National Bank (BNB). The latter two are used for the deposit of government revenue, and transfers are made daily from them to the CBB Current account. All government revenue is deposited in the Current Account. The Accountant-General has control of all bank accounts held by Ministries, and all cash is consolidated in the CBB account except to the extent that special accounts are maintained for particular projects (but such accounts still remain under the control of the Accountant-General). Score for this dimension: A.

iii) Systems for contracting loans and issuance of guarantees

The contracting of debt by the government is effectively controlled by MoF and CBB, and other government bodies cannot borrow independently. The system for making loans and issuing guarantees is well regulated. Under the Financial Management and Audit Act 2007, the Accountant General is authorized to make advances to other "governments or administrations". Security in the form of a loan agreement or debenture is required for loans to enterprises (Government or non-Government). The Act permits and limits the giving of guarantees or indemnities that impose a contingent liability, and any money paid by GoB becomes a debt to the Government. Debt reports in the context of the Estimates exclude such guaranteed borrowing.

Loans and government guarantees of loans are approved ad hoc by Parliament on the basis of analysis carried out by the MoF and recommendations of Cabinet. The most problematic area seems to be the Statutory Boards whose borrowing (e.g. by bank overdraft) may be inadequately monitored and controlled (see PI-9 above), thereby imposing contingent liabilities on the Government. There is no routine monitoring of guaranteed loans although the Director of Finance may request information. Rating for this dimension: C

Compared with 2006, this indicator shows an overall improvement. Higher scores have been recorded for dimensions i) where records are complete and of high integrity and ii) where consolidation of cash balances is comprehensive and timely.

Indicator	Score 2006	Score 2010	Explanation
PI-17 Recording		B+	M2 scoring method

and Management of Cash balances, Debt and Guarantees	B		
i) Quality of the records and reports presented on debt data.	B	A	Domestic and foreign debt records are complete, updated and reconciled on a monthly basis with data considered of high integrity. Comprehensive management and statistical reports (covering debt service, stock and operations) are produced at least quarterly
ii) Degree of consolidation of government cash balances	B	A	All cash balances are calculated daily and consolidated
iii) Systems for contracting loans and granting guarantees	C	C	Government loans and advances are well regulated but contingent liabilities may arise from the actions of statutory bodies.

PI-18 Effectiveness of payroll controls

i) Degree of integration and reconciliation between personnel records and payroll data

There is full integration between the Smartstream modules covering the payroll and the Personnel Information Management system. While it is the responsibility of each Ministry to initiate appointments and promotions, they all require the specific approval of the Public Service or other Commission or their delegates, and all changes to the payroll have to be entered by the Personnel Administration Department of the Ministry of the Civil Service which acts as the secretariat to the Commissions Rating for this dimension: A

ii) Timeliness in the introduction of changes to the personnel records and payroll

Many posts, particularly at senior level are occupied by people in an “acting” capacity, while the permanent holders of these posts are employed elsewhere, again on an acting basis. Such acting positions may be renewed annually for up to three years, after which the acting post holders must be confirmed in their positions. Because of the number and complexity of such situations, renewal is sometimes delayed, with the consequence that the pay an officer receives reverts to that of his substantive position, and special arrangements have then to be made for back pay adjustments. Dimension score: B

iii) Internal control over changes to personnel records and payroll data

All appointments and promotions, whether permanent or temporary, have to be approved by the Public Service or other Commission or their delegates, which in turn are serviced by

the Personnel Administration Department (PAD) of the Ministry of the Civil Service. PAD requires proof in each case that the officers concerned have the qualifications and experience required for each post in accordance with the Public Service Act and the Civil Establishments (Qualifications) Order. Since PAD controls all changes to personnel and payroll records, and itself enters the relevant details into the payroll system, there is always a clear audit trail. Dimension score A

iv) *Existence of payroll audits to check for oversight errors and/or ghost workers*

PAD carries out a rigorous validation of the qualifications and experience of all officers on the payroll. This very strong independent central control largely obviates any need for a separate system of payroll audits. *The Auditor-General* includes a sample of salary payments among the payments tested for the purpose of his annual audit of the Government's Financial Statements, and may also cover personnel and payroll questions in his compliance audit work at each Ministry. For several years the Office of Public Sector Reform (OPSR) has been reviewing in detail the use of the manpower available to each Ministry. This work has some of the character of systematic audit, and the Auditor-General is intending to make his own study in 2010 of the efficient use of manpower by different sections of the government.

Dimension score: B

The overall score remains unchanged since 2006 but the scores for dimension ii) have been reduced because the large number of "acting" posts causes some delay and the need for retrospective salary adjustments.

Indicator	Score 2006	Score 2010	Explanation
PI-18 Effectiveness of payroll controls	B+	B+	M1 scoring method
(i) Degree of integration and reconciliation between personnel registers and payroll data	A	A	There is full integration of the Smartstream payroll and personnel record modules.
(ii) Timeliness of changes to personnel records and the payroll	A	B	Because of the prevalence of "acting" situations, where renewals are sometimes delayed, retrospective salary adjustments are occasionally required.
(iii) Internal control of changes to the staff register and payroll	A	A	The requirement to notify and justify changes to the PAD at MCS, which then enters the changes into the payroll, ensures a sufficient audit trail.
(iv) Payroll auditing to identify loopholes in controls and/ or	B	B	The ongoing reviews by OPSR of the use of manpower provide some element of audit assurance in this area. But the main assurance is provided by the 100 per cent

fictitious workers			independent verification by PAD at MCS of qualifications and experience in the case of all staff appointments, even where these are temporary.
--------------------	--	--	--

PI-19 Competition, value for money and controls in procurements

i) Evidence of open competition being used for the adjudication of contracts with a value in excess of the monetary threshold nationally established for small acquisitions (percentage of the number of contracts awarded with a value above the threshold)

Two procurement thresholds operate in Barbados. Contracts above BD\$100,000 must go to the Tenders Committee chaired by the Chief Supply Officer. Contracts with a value between BS\$20,000 and \$100,000 require three written quotations before orders are placed. (The Solicitor-General's procedures in approving the terms of contracts are so cumbersome that most orders are executed on the basis of exchanges of letters setting out the main elements of price, quantity and delivery conditions.) Contracting is still governed by the Financial Management and Audit (Financial) and (Supplies) Rules 1971, which permit the use of less competitive methods than open tender in certain circumstances, such as a small number of bidders or an emergency. Such a decision is taken by the Director of Finance in the Ministry of Finance. The rules do not apply to statutory bodies, however. They have their own rules, though it is expected that they will be subject to greater discipline in the context of the revision of procurement legislation to be undertaken during the next year, following a review of present arrangements supported by IDB. There are as yet no routinely kept records that show the proportion of contracts let by less competitive procurement methods or the amounts involved. Rating for this dimension: D

ii) Degree of justification for the use of less competitive methods for procurement

When less competitive methods are used, this is recorded by the Tenders Committee with reasons. But the scope within the regulations for using less competitive methods is wider than current best practice would allow. Dimension score: B

(iii) *Existence and functioning of a procurement complaints mechanism*

There is no dedicated procurement complaints mechanism in respect of tender decisions, which are not published. However, it is possible to attend the opening of tenders, and there is a mechanism for complaints to the Minister of Finance against decisions to exclude applicants from a list of approved suppliers to which certain invitations to tender or to submit quotations are restricted. Thus there is a process, defined in the regulatory framework, for dealing with some, but not all complaints. Appeals can also be made to the Courts where firms consider that they have not been treated fairly, although there has only been one case in recent years. Dimension score: C

The overall score has increased from D+ to C because credit has been given in dimension iii) for the existence of a process for complaints against exclusion from selected lists of

approved suppliers.

Indicator	Score 2006	Score 2010	Explanation
PI 19 Competition, value for money and controls in procurements	D+	C	M2 scoring method
i) Evidence of the use of open competition methods for awarding contracts with a value in excess of the nationally-established threshold for small acquisitions	D	D	No records are kept from which to calculate the extent to which open competition is used; although it is probably the norm, there have certainly been occasions when less competitive methods have been employed.
ii) Degree of justification for the use of less competitive methods for acquisitions	B	B	Other less competitive methods when used are justified in accordance with regulatory requirements.
iii) Existence and functioning of a complaints mechanism for procurement	D	C	A process exists for submitting and addressing complaints against exclusion from lists of approved suppliers, but there are no mechanisms for dealing with complaints against other aspects of procurement other than appeals to the Courts.

PI-20 Effectiveness of internal controls on non-salary expenditure

i) Effectiveness of expenditure commitment controls

The application of the Smartstream accounting software has been accompanied by the necessary business process re-engineering which establishes effective control over most types of expenditure commitment. The Funds Control module prevents these from being undertaken (if entered promptly into the system) without the existence of a voted budget and accompanying warrant to spend. However, problems do arise when procurement transactions are entered only when payment is due rather than at the commitment stage, and there are currently no controls over commitments on contracts extending beyond the current financial year. This weakens expenditure control. Dimension score: C

ii) Scope, relevance and understanding of other internal control regulations and procedures

Comprehensive and relevant Financial Rules were established under the Financial Administration Audit Act 1971 and these remain in use because as yet similar regulations

under the FMAA 2007 remain in draft form only. Because of their longevity the Rules are well understood though staffing shortages impinge upon their application. Virement is currently excessively restricted but various options for its extended application are currently under consideration.

The migration to accruals accounting led the Accountant General to secure the establishment of the post of Financial Controller in most line ministries. The post-holders are qualified accountants. This development has helped to strengthen the internal control environment and improve the quality of public financial management. Another positive development has been the issue of Accounting Instructions by the Director of Finance (for which provision is made in FMAA 2007) in advance of the introduction of the new Financial Regulations (into which the Accounting Instructions will be integrated). These have facilitated the correct application of accruals accounting principles and procedures. Dimension score: B

iii) Degree of compliance with regulations on the processing and registration of transactions

The Smartstream system ensures that compliance with rules for the processing and recording of transactions is generally good though internal and external audit reports have identified some deficiencies in related areas, particularly in reconciliations between the Treasury records and those kept in Ministries which do not make proper use of the Smartstream system for the purposes of their own monitoring of expenditure and project execution. It does not appear, however, that these deficiencies undermine the essential integrity of the Smartstream system as the vehicle for processing and recording payments. Dimension score: B

Whilst the overall score remains the same as in 2006, that for dimension i) has been reduced to reflect the fact that certain types of commitment are not effectively controlled. Those for ii) and iii) have been increased to reflect the improved control environment.

Indicator	Score 2006	Score 2010	Explanation
PI 20 Effectiveness of internal controls on non-salary expenditure	C+	C+	M1 Scoring Method
(i) Effectiveness of controls on expenditure commitments	B	C	Not all commitments are entered into the Smartstream funds control module, and there are no controls over commitments under contracts extending beyond the current year.
(ii) Scope, relevance and understanding of other internal control regulations and procedures	C	B	The current rules are generally well understood, but they are in important respects out of date, and are unduly restrictive in preventing virement.
iii) Degree of compliance with the regulations for processing and registering transactions.	C	B	Smartstream ensures that payment processes are correctly executed, although there is some evidence that Ministries own record keeping may sometimes not be accurate.

PI-21 Effectiveness of Internal Audit

i) Scope and quality of internal audit function

Internal audit is very much in its infancy in the GoB. At present it only exists as a separate function in MoF (Treasury and revenue departments) and Ministry of Transport and Works and, even then, internal audit units tend to be understaffed. In a number of cases, the Financial Controller is “de facto” the internal audit function. In some cases (Ministries of Health and Education), internal audit posts have been approved but have not yet been filled. Dimension score: D

ii) Frequency and distribution of reports

The Treasury’s internal audit team carries out audit work in its own department as well as reviews at line ministries and departments. Reports are produced and copies provided to the Ministry/ Department audited, the Director of Finance at the Ministry of Finance and the Auditor General. Dimension score: C.

iii) The administration’s reaction to internal audit conclusions

Treasury and Revenue Departments confirm that some action is taken in response to internal audit reports done by their internal auditors, but there is no mechanism to ensure that lessons learned in one area can be generalized throughout the government. Dimension score: C

No overall change from 2006, although there has been some improvement in responses to audit reports.

Indicator	Score 2006	Score 2010	Explanation
PI-21 Effectiveness of Internal Audit	D+	D+	M1 scoring method
(i) Scope and quality of internal audit function	D	D	There is little or no internal audit focused on systems monitoring.
(ii) Frequency and distribution of reports	C	C	Reports are issued for government entities.
iii) Administration's response to the conclusions of the internal audit	D	C	Limited action is taken

5. Accounting, recording and reporting

This group of indicators assesses the quality and timeliness of accounting, recording and reporting.

PI-22 Timeliness and regularity of accounts reconciliation

i) Regularity of bank account reconciliations

This dimension is concerned with the reconciliation between the government's records of the accounting data on its books and the government's bank account data held by banks. It is an area that has proved rather troublesome in Barbados and attracted some criticism from the Auditor General. In his 2009 report, he commented that "for some years, the monthly reconciliations between the Treasury's records and bank statements for its three bank accounts have consistently shown unexplained differences. At 31st March 2009, reconciliation statements of two of these bank accounts showed unexplained differences. No reconciliation was presented for the third account".

The Accountant-General considers that bank reconciliation overall for the main accounts is reasonably up to date (normally complete within four weeks of the end of each month), but acknowledges that there have been problems in staffing (the job is rather tedious but temporary staff have been hired and become proficient only to be moved elsewhere in the public service). There have also been some difficulties arising from procedures followed by both the First Caribbean Bank and Barbados National Bank that have caused reconciliation problems. In the cases of the special accounts where the Treasury holds balances on behalf

of other Ministries and where there are relatively few transactions, reconciliation takes place only at annual intervals. There have also been some delays in reconciling the accounts of line ministries and spending units like secondary schools.

Dimension score: B

ii) Regularity of reconciliation and payment of suspense accounts and advances

In 2007/08 the accounting system changed from the cash basis to the accrual basis, so that transactions are now recorded in the year in which they take place rather than when the cash is paid or received. This may have contributed to the challenges of regular reconciliation of suspense accounts and advances, which generally takes place at yearly intervals.

This indicator shows a slight deterioration because the significant number of uncleared balances remains a problem frequently referred to by the Auditor General. Dimension score: C

Indicator	Score 2006	Score 2010	Explanation
PI-22 Timeliness and regularity of accounts reconciliation	B	C+	Scoring method M2
(i) Frequency of reconciliation of bank accounts	B	B	Bank reconciliation for the main Treasury managed bank accounts take place at least monthly, usually within 4 weeks from end of month.
(ii) Frequency of reconciliation and payment of suspense accounts and advances	B	C	Reconciliation and clearance of suspense accounts and advances take place annually in general, within two months of end of year, but a significant number of accounts have uncleared balances brought forward.

PI-23 Availability of information on resources received by service delivery units

- i) Compilation and processing of information to show the resources effectively received (in money or in kind) by the majority of front-line service delivery units (with particular focus on primary schools and primary health care clinics) in relation to the resources made available by the relevant sector or sectors, regardless of the level of government responsible for the functioning and funding of these units

Detailed information is provided in the Estimates of budget allocations to individual primary healthcare units and secondary schools.

A higher score than that in 2006 has been recorded on account of the fact that information on resource allocations to primary healthcare units is made available.

Indicator	Score 2006	Score 2010	Explanation
PI-23 Availability of information on resources received by service delivery units	D	B	Scoring method M1
Compilation and processing of information to show the resources effectively received (in payment or in kind) by the majority of front-line service delivery units.	D	B	While information concerning the level of resource allocations to primary healthcare units is made available, there is no comparable information for primary schools (though there is for secondary schools).

PI-24 Quality and timeliness of in-year budget reports

- (i) Scope of the reports in terms of coverage and compatibility with budgetary forecasts

A monthly draft fiscal report, generated by Smartstream, is prepared by the Accountant General for consideration by the Economic Policy Group chaired by the Prime Minister, who is also the Minister of Finance. This report is now a major economic and financial management tool for the GoB. Financial statements reporting income and expenditure, financial position, and cash flow, are prepared, but commitments are not recorded or reported. Dimension score: C

- (ii) Timeliness of report presentation

The monthly draft Fiscal Report is due by the 10th of the following month. The Financial Statements are due by the end of the following month. In practice, the Accountant General typically has to play “catch up” with these reports in the period from April to July due to the time taken at the beginning of each financial year to close the accounts of the previous year. This has become a more demanding task since the introduction of accruals accounting due to the greater number of year-end adjustments required and delays have become common. Dimension score: A

- (iii) Quality of information

The integrity of the reported information is generally of a high standard. Some issues of a relatively minor nature have been raised by the Auditor General. Dimension score: A

Indicator	Score 2006	Score 2010	Explanation
-----------	------------	------------	-------------

PI-24 Quality and timeliness of in-year budget reports	C+	C+	Scoring method M1
(i) Scope of reports in terms of coverage and compatibility with budgetary forecasts	C	C	Monthly reports are produced but do not extend to commitments.
(ii) Timeliness in the presentation of reports	A	A	Reports are prepared quarterly or more frequently, and issued within 4 weeks of end of period.
(iii) Quality of the information	A	A	There are no material concerns regarding data accuracy.

PI-25 Quality and timeliness of annual financial statements

(i) Comprehensiveness of financial statements

The Accountant General fully complies with the requirements of the Financial Management and Audit Act 2007 in terms of the annual financial statements. These include a financial position statement, a statement of financial performance, a cash flow statement, a statement of borrowing, a statement of sinking fund and its assets, a statement of contingent liabilities and a statement of accounting policies. Dimension score: A

(ii) Timeliness in the presentation of financial statements

The annual financial statements are presented to Parliament within the four months stipulated by the FMAA. Dimension score: A

(iii) Accounting standards used

The GoB switched to accrual accounting in 2007/08 and applies International Public Sector Accounting Standards (IPSAS) although there have been some differences of opinion between the Accountant General and the Auditor General over the application of IPSAS and various aspects of accrual accounting (the Auditor General questioned whether there had been sufficient disclosure of transitional problems and problems with the valuation of fixed assets). Dimension score: B

A higher score for this indicator results from dimension iii) where credit has been given for the GoB's work on introducing accrual accounting since the time of the last review. Every effort is being made to ensure that this is done in line with IPSAS.

Indicator	Score 2006	Score 2010	Explanation
PI-25 Quality and timeliness of annual financial statements	C+	B+	Scoring method M1

(i) Completeness of financial statements	A	A	A consolidated government statement is prepared annually and includes full information on revenue, expenditure and financial assets/liabilities.
(ii) Timeliness in the presentation of financial statements	A	A	The statement is submitted for external audit within 6 months of the end of the fiscal year.
(iii) Accounting standards used	C	B	IPSAS or corresponding national standards are applied.

6. External Scrutiny and Audit

PI-26 Scope, nature and follow-up of external audit

(i) Scope/nature of the audit carried out (including compliance with auditing standards)

The Barbados Audit Office carries out a wide range of financial, compliance, Value for Money and special reports, the latter on occasion at the request of the Accountant General and the Minister of Finance. Additional resources are provided if necessary. The BAO is a member of the International Organisation of Supreme Audit Institutions (INTOSAI) and its regional branch (CAROSAI) and applies “generally accepted auditing standards” (that is, INTOSAI standards) in carrying out its work. The Auditor-General gives an Opinion each year on the Financial Statements presented by the Accountant-General based on an overall financial audit. In his 2009 report, the Auditor General notes that “there were a number of [compliance and other] audits not completed during the year as a result of staff shortages and to other challenges faced by the Office. This was contrary to the Financial Management and Audit Act and the Constitution which requires the Auditor General to conduct audits of all Ministries and Departments annually. During 2009 audits were not conducted on the Prime Minister’s Office, Parliament, Ministry of Housing and Lands, Ministry of Finance, Ministry of Economic Affairs and Energy, and the Ministry of Transport and Works. In addition, audits were partially completed on the Ministry of Home Affairs, Attorney General, Ministry of Labour and the Civil Service” Dimension score: C.

(ii) *Timeliness in the presentation of auditing reports to the Legislature*

Some delays have been experienced in reporting to the Legislature; for the years 2006-07, 2007-08 and 2008-09 the reports were submitted in February, May and April respectively whereas the FMAA requires the Annual Report on the Financial Statements to be completed by no later than 31 December following the end of the financial year under review. In his 2008-09 report, the Auditor General reports that the delay “was caused by inadequate staff levels and slow responses from ministries/departments to requests for information, amongst other factors”. Dimension score because the most recent report was submitted

more than eight months after receipt of the Financial Statements from the Accountant-General: C

(iv) Evidence of the audit's recommendations being acted upon

In a number of cases, the Auditor General's report contains comments from the auditees including actions that have or will be undertaken in response to audit findings. However, there is no evidence of consistent action resulting from audit recommendations and the PAC has not routinely been considering audit reports. Dimension score: C

Although the overall indicator score remains the same as in 2006, the score for dimension i) has been reduced because of the impact of staff shortages on audit coverage, and for ii) has been reduced because of delays in submitting the latest annual audit reports to parliament.

Indicator	Score 2006	Score 2010	Explanation
PI-26 Scope, nature and follow-up of external audit	C+	C+	Scoring method M1
(i) Scope/nature of the audit carried out (including adherence to audit standards).	B	C	Central government entities representing at least 50% of total expenditures ¹² are audited annually, at least covering revenue and expenditure. A wide range of financial audits are performed and generally adheres to auditing standards, focusing on significant and systemic issues.
(ii) Timeliness in the presentation of auditing reports to the Legislature	B	C	Two of the three latest annual Audit reports were submitted to the legislature more than 8 months after the receipt of financial statements from the Accountant-General.
(iii) Proof of audit recommendations being acted upon	C	C	A formal response is made, though delayed or not very thorough, but there is little evidence of any follow up.

PI-27 Legislative Scrutiny of the Annual Budget Law

This indicator evaluates the capacities of the Legislature to examine debate, approve and

control the public budget, as well as to ensure strict compliance with the relevant regulations.

i) Scope of examination by the Legislature

In Barbados, the scope of legislative review is limited to a review of revenue and expenditure estimates once they have been finalised by the Executive. Although some minor changes may be made to expenditure lines in response to points made in the Estimates debate, no changes of real substance are possible. Dimension score: C

ii) Degree to which legislative procedures are recognised and respected

There is a high degree of respect for parliamentary tradition and procedures, but these are essentially formal. There are no arrangements for detailed review of Budget proposals by specialist Committees. Dimension score: B.

iii) Degree to which the Legislature has sufficient time to respond to the Budget Bill's propositions, both in terms of detailed estimates and (where relevant) macro-fiscal aggregates at the start of the Budget preparation cycle (time required, in practice, for all stages)

The House of Assembly is allowed five days for the debate of the estimates and the Senate three days and there is no specialised committee involved in the process. This limited amount of time and essentially political focus of the debate means that only a few of the budget heads are considered in any detail. Dimension score: D

iv) Rules applicable to budgetary amendments during the year which do not require the approval of the Legislature

Very strict rules govern in year budget adjustments by the Executive and these are followed, resulting in several sets of supplementary estimates being placed before the House. Dimension score: A

The only change since 2006 is to dimension ii) where credit has been given for the high degree of respect for well-established parliamentary tradition and procedures

Indicator	Score 2006	Score 2010	Explanation
PI-27 Legislative scrutiny of the annual budget law	D+	D+	Scoring method M1
i) Scope of examination by the Legislature	C	C	The legislature's review covers details of expenditure and revenue, but only at a stage where detailed proposals have been finalized.
ii) Degree to which			Simple procedures exist for the

legislative procedures are recognised and respected	C	B	legislature's budget review and are respected.
iii) Sufficiency of time for the Legislature to respond to the budgetary proposals.	D	D	The time allowed for the legislature's review is clearly insufficient for a meaningful debate (significantly less than one month).
iv) Rules applicable to budgetary amendments during the year in course that do not require prior approval of the Legislature.	A	A	Clear rules exist for in-year budget amendments by the executive, set strict limits on extent and nature of amendments and are consistently respected.

PI-28 Legislative scrutiny of external audit reports

- (i) Punctuality in examination of the audit reports by the Legislature (reports received within the past three years).

No audit reports (neither the annual reports on the Financial Statements nor special reports on particular issues) have been considered by the PAC in the last three years. Dimension score: D

- (ii) Scope of the hearings carried out by the Legislature into the main findings

The operation of the Public Accounts Committee in Barbados has been problematic. Whilst the PAC met twice in 2009 to discuss procedural matters relating to the functioning of the Committee, there has been no discussion of audit reports since 2007. The Committee is chaired by the Leader of Opposition, but its composition is such that the discussions are highly politicized – a number of the 13 members are actually Government Ministers. Dimension score: D

- (iii) Measures recommended by the Legislature and their implementation by the Executive

There have been no recommendations by the Legislature. Dimension score: D

There are no changes from the 2006 scores.

Indicator	Score 2006	Score 2010	Explanation
PI-28 Legislative scrutiny of external audit reports	D	D	Scoring method M1
(i) Timeliness in the		D	Examination of audit reports by the

examination of audit reports by the Legislature (reports received within the past three years).	D		legislature does not take place or usually takes more than 12 months to complete.
(ii) Scope of the hearings held by the Legislature into the main conclusions	D	D	No in-depth hearings are conducted by the legislature.
(iii) Measures recommended by the Legislature and implementation of these by the Executive	D	D	No recommendations are being issued by the legislature.

7. Donor Practices

D-1 Predictability of direct budgetary support

- (i) Annual deviation in effective budgetary support with respect to that planned by donor bodies at least six months before the government presents its budgetary proposals to the Legislature (or equivalent organ responsible for approving them)

Budget support to Barbados is provided only by the European Commission. Amounts included in Budget Estimates for 2006-07, 2007-08 and 2008-09 were zero, BD\$ 8.9m, and BD\$5.8m respectively; out-turn figures were zero, BD\$4.0 and BD\$7.5m. Rating D, reflecting complete lack of relationship between Estimates and out-turns.

- (ii) Timeliness of disbursements by donors during the year (compliance with aggregate quarterly estimates)

No forecasts provided of the quarterly path of payments. Rating D.

Indicator	Score 2006	Score 2010	Explanation
D-1 Predictability of direct budgetary support	NA	D	Scoring method M1
i) Annual deviation in real budgetary support with respect to that forecast by donor organisations at least six months before the Government presents its budgetary	NA	D	No direct budget support in 2006-07. In 2007-08 receipts were 44 per cent of Budget Estimate and in 2008-09 129 per cent.

proposals to the Legislature (or other equivalent body responsible for approving the budget)			
ii) Timeliness of disbursements by donors throughout the year (fulfilment of aggregate quarterly estimates)	NA	D	No forecast provided of the quarterly path of payments.

D-2 Financial information provided by donors for budgeting and reporting on project and programme aid

The objective of this indicator is to evaluate the comprehensiveness and punctuality of donors' budgetary estimates in relation to their assistance to projects. The indicator also analyses the frequency and coverage of the presentation of reports by donors on effective resource flow for project support.

- i) *Comprehensiveness and punctuality of donors' budgetary estimates in relation to project support*
- ii) *Frequency and coverage of the presentation of reports by donors in relation to effective resource flows for project support*

No information is available about amounts or timing of project support receipts from lenders. It is understood that activities are pre-financed by the Barbados government, and the amounts subsequently reclaimed from lenders.

Indicator	Score 2006	Score 2010	Explanation
D-2 Financial information provided by donors for budgeting and reporting on project and programme aid	B	NR	Scoring .method M1
i) Comprehensiveness and timeliness of donors' budgetary estimates for project support	B	NR	No information available.
ii) Frequency and coverage in the presentation of reports by donors on effective flows for project support		NR	No information available

D-3 Proportion of aid managed by use of national procedures

The objective of this indicator is to establish the proportion of assistance funds (external loans and donations) to central government that are administered on the basis of national procedures in the four areas of acquisitions, payments and accountability, and auditing and presentation of reports, respectively.

Global proportion of aid funds to the central government that are administered on the basis of national procedures

All direct budget support funding is necessarily subject to national procedures in all four areas. Projects financed from loans are subject to national payment and reporting procedures, even if the lenders' procedures are followed for procurement and audit. Thus the minimum conditions (average of 50 per cent use of national procedures) for a C rating are satisfied. If information were available about receipts from lenders, a higher rating might be justified.

Indicator	Score 2006	Score 2010	Explanation
D-3 Proportion of aid managed by use of national procedures	D	C	Scoring method M1
Proportion of aid funds for the central government that are managed in line with national procedures	D	C	On average at least 50 per cent of external funds follow national procedures, but information is not available to support a higher rating.

4. Government reform process

1. Recent and On-going Reforms

1. Since the mid-1990s the Government of Barbados has undertaken a wide range of public sector reform initiatives. Some of these have concerned the way government business and staff are organized and managed. The Office of Public Sector Reform (OPSR), a division of the Ministry of the Civil Service, has generally taken the lead in various steps to improve staff management, reporting and promotion processes and procedures. OPSR is currently engaged on a series of organisational reviews of Ministries, with the objective of improving the overall use of staff, and making better use of their qualifications and aptitudes. A new Public Service Act was passed in 2008, with the objective of making recruitment and management fairer and more transparent, while the Public Service Order (2006) required that staff being promoted in future to senior positions should have appropriate academic/professional qualifications, and that promotion should be dependent on capability and merit, rather than seniority and length of service.

2. Another series of reform initiatives concerns the application of information technology to government operations and to the government's different interfaces with its citizens, where the lead has generally rested with the Data Processing Department (formerly in the Prime Minister's Office, but now also part of the Ministry of the Civil Service). Initiatives include the development of a single portal for government employees and the general public to access government information of different types, and the introduction of a single card which would serve both as an identification card for a variety of applications and as a driver's license. The Tax Departments have been concerned in another range of e-government initiatives to apply information technology to tax filing, assessment and collection, so as to make them more user-friendly to the compliant taxpayer and more effective from the standpoint of revenue collection.

3. A further series of initiatives has concerned PFM reform. A key initiative has been the progressive introduction of a wide range of modules of the Smartstream financial management system within which the Budget is planned, executed and accounted for. Smartstream also provides for a personnel information system which can interface with the payroll system, and for an element of control over procurement. To a significant degree Smartstream has required the reorganization of work and the reallocation of responsibilities so as to avoid the duplication of efforts, improve financial controls and provide for the flexible production of information for management and reporting purposes. Other notable steps have been the introduction of VAT in 1997, and the updating of the underlying legislative framework through the new Financial Management and Audit Act (FMAA) 2007, which inter alia strengthened the powers of the Auditor-General and provided the basis for the application of the accruals principle to accounting, budgeting and financial reporting as from 2007-08. The introduction of accrual accounting has itself been a major and very demanding reform. In addition to the principal legislation, revised Regulations under the Act have been prepared to take the place of the Financial Administration and Audit (Financial) and (Supplies) Rules (1971), but have yet to be brought into force by decision of the Cabinet.

For the time being the detailed arrangements for accrual accounting rest on Instructions given by the Director of Finance (the most senior official at MoF) in accordance with a power given to him in FMAA ; these will be included, together with other matters, including some changes affecting procurement, in the new Financial Regulations. Important progress has been made towards medium-term public expenditure planning, with almost all Ministries now covered by the requirement to provide bids not only for expenditure in the year immediately ahead, but also figures for the two subsequent years, together with indications of the results to be achieved.

4. Although Barbados has a relatively well-functioning budget and tax system, there remains a substantial PFM agenda. The IDB-sponsored project to modernize the Customs and VAT systems remains ongoing, and IFI assistance is being sought for the reformulation of legislation and practice in public procurement and for a general review of tax legislation. The inadequacy of resources devoted to VAT and external audit needs to be remedied. Controls over expenditure commitments need to be strengthened and extended. Financial supervision of statutory bodies and public enterprises needs to be made more effective. Finally the medium-term projections of each Ministry's expenditure need to be made fully consistent with the total resources prospectively available in the government's Medium Term Fiscal Strategy (MTFS).

2. Institutional Factors Supporting Reform Planning and Implementation

5. The major challenge facing Barbados's PFM system is to deliver the large fiscal adjustment required by the MTFS to bring the Budget into balance by 2014-15. This will require firm decisions about public service pay, public enterprise services and prices, and efficient planning and execution of public procurement of both investment and current goods and services. But the successful completion of the various PFM reforms now planned will also be fundamental to the achievement of the medium term objectives, in delivering more tax receipts and economies in the delivery of public services, while creating the conditions needed for economic growth in the productive sectors of the economy. Progress in the implementation of the MTFS is already being closely monitored by a high level group from the Ministries of Finance and Economic Affairs and the Central Bank, which will need to ensure that the specific actions required to implement each element in the strategy, together with the timing, are planned in detail and thereafter carried out within the predetermined timescale.

ANNEXES

Annex 1

Statistics used in the Calculation of Quantitative Indicators

Table 1 - Fiscal years for assessment

Year 1 =	2006/07
Year 2 =	2007/08
Year 3 =	2008/09

Table 2

Data for year = 2006/07					
functional head	budget	actual	difference	absolute	percent
Education youth & sport	439894	475961	36067	36067	8.2%
Health, NI & Soc Security	350674	359223	8549	8549	2.4%
Finance, Ec Affairs & Energy	254325	249181	-5144	5144	2.0%
Transport & Works	117528	147444	29916	29916	25.5%
Attorney General	147132	140412	-6720	6720	4.6%
Prime Minister's Office	100516	115258	14742	14742	14.7%
Tourism	95786	89084	-6702	6702	7.0%
Social Transformation	74596	65311	-9285	9285	12.4%
Agriculture & Rural Develop	66943	61443	-5500	5500	8.2%
Economic Affairs & Dev	59858	55663	-4195	4195	7.0%
Energy & Environment	56676	52468	-4208	4208	7.4%
Housing & Lands	60565	52433	-8132	8132	13.4%
Home Affairs	48134	46752	-1382	1382	2.9%
For. Aff, For Tr.	49374	41652	-7722	7722	15.6%
Labour & Civil Service	37163	33818	-3345	3345	2.9%
Cabinet Office	17133	15443	-1690	1690	9.9%
Commerce etc,	14122	12714	-1408	1408	10.0%
Parliament	7817	7810	-7	7	0.1%
Audit	3081	2509	-572	572	18.6%
21 (= sum of rest)	3457	3064	-393	393	11.4%
total expenditure	2004774	2027643	22869	22869	1.1%
composition variance	2004774	2027643		155679	7.8%

Table 3

Data for year = 2007/08					
functional head	budget	actual	difference	absolute	percent
Education youth & sport	454130	503789	49659	49659	10.9%
Health, NI & Soc Security	355732	398382	42650	42650	12.0%
Finance, Ec Affairs & Energy	378990	313159	-65831	65831	17.4%
Transport & Works	109576	149037	39461	39461	36.0%
Prime Minister's Office	107384	145594	38210	38210	35.6%
Attorney General	144968	143213	-1755	1755	1.2%

Tourism & Int Transport	107186	123631	16445	16445	15.3%
Housing & Lands	82487	117518	35031	35031	42.5%
Energy & Environment	60608	79147	18539	18539	30.6%
Economic Affairs & Dev	55526	65947	10421	10421	18.8%
Agriculture & Rural Devel	61760	65090	3330	3330	5.4%
Social Transformation	76421	63190	-13231	13231	17.3%
Home Affairs	52838	49894	-2944	2944	5.6%
For. Aff, For Tr.	49391	43366	-6025	6025	12.2%
Labour & Civil Service	39025	34376	-4649	4649	11.9%
Cabinet Office	17812	20686	2874	2874	16.1%
Commerce etc	15707	13278	-2429	2429	15.5%
Parliament	8690	9551	861	861	9.9%
Audit	3518	2906	-612	612	17.4%
20 (= sum of rest)	3593	3254	-339	339	9.4%
total expenditure deviation	2185342	2345008	159666	159666	7.3%
composition variance	2185342	2345008		355296	16.3%

Table 4

Data for year = 2008/09					
functional head	budget	actual	difference	absolute	percent
Finance, Ec Affairs & Energy	564777	568148	3371	3371	0.6%
Education & HRD	465942	522591	56649	56649	12.2%
Health, NI & Soc Security	462892	504482	41590	41590	9.0%
Transport & Works	141174	189551	48377	48377	34.3%
Tourism	116167	150414	34247	34247	29.5%
Attorney General	155256	143802	-11454	11454	7.4%
Prime Minister's Office	109283	115927	6644	6644	6.1%
Family, Youth, Sport, Env.	108683	105898	-2785	2785	2.6%
Agriculture & Rural Devel	71053	74031	2978	2978	4.2%
Housing & Lands	75339	71932	-3407	3407	4.5%
For. Aff, For Tr. & Int Bus	77493	66896	-10597	10597	13.7%
Home Affairs	60813	52052	-8761	8761	14.4%
Soc. Care etc.	77463	50044	-27419	27419	35.4%
Labour & Civil Service	40337	37408	-2929	2929	7.3%
Trade, Industry & Comm.	38603	32700	-5903	5903	15.3%
Community Dev. & Culture	28080	27068	-1012	1012	3.6%
Cabinet Office	18720	16338	-2382	2382	12.7%
Parliament	9589	10450	861	861	9.0%
Audit	4124	2972	-1152	1152	27.9%
21 (= sum of rest)	3738	3117	-611	611	16.6%
total expenditure deviation	2629526	2745821	116295	116295	4.4%
composition variance	2629526	2745821		273139	10.4%

Table 5 Results Matrix

year	for PI-1		variance in excess of total deviation
	total exp. deviation	total exp. variance	
2006/07	1.1%	7.8%	6.6%
2007/08	7.3%	16.3%	9.0%
2008/09	4.4%	10.4%	6.0%

P1-3 Workings (BD\$m.)

	2006/07	2006/07	% Est	2007/08	2007/08	%	2008/09	2008/09	% Est
	Estimates	Actual		Estimates	Actual	Est	Estimates	Actual	
Taxes on Goods and Services	1022	939.3	91.95	1037.8	1064.6	102.6	1158	1079	93.16
Taxes on Income and Profits	594.4	804.7	135.38	893	928.6	103.9	969.9	893.1	92.08
Taxes on Property	133.1	151.2	113.60	161	145	90.06	127	158.2	124.57
Taxes on International Trade	226.4	173.8	76.77	194	216.9	111.8	238.6	219.5	91.99
Other Taxes	21.6	26.9	124.54	27.6	21.9	79.35	29.5	18.6	63.05
TOTAL TAX REVENUE	1997	2096	104.95	2313.5	2376.9	102.7	2523	2369	93.90
Other non-tax revenue	81.8	65.9	80.56	104.1	156.2	150.0	150	131.6	87.73
Special Receipts	74.2	59.3	79.92	16.7	5.3	31.74	62.4	115.1	184.46
Loans and Advances	1.8	2.2	122.22	-	-	-	-	-	-
TOTAL NON-TAX REVENUE	157.8	127.4	80.74	120.1	161.5	134.5	212.4	246.7	116.15
TOTAL REVENUE	2155	2233	103.64	2443.4	2538.4	103.9	2762	2616	94.70

Terms of Reference

Assessment of Public Finance Management in Barbados using the PEFA PFM Performance Framework

A. Background

Budget Support and the European Commission

In keeping with its obligations particularly under the Paris Declaration on Aid Effectiveness (March 2005) and the European Consensus on Development Policy (November 2005), the European Commission (EC) is committed to, where circumstances permit, the increased use of general and sectoral budget support as a means of strengthening ownership, supporting national accountability and procedures and promoting sound and transparent management of public finances, of its partners in the African, Caribbean and Pacific (ACP) countries. In this regard, the Delegation of Barbados and the Eastern Caribbean is presently implementing budget support programmes totalling €205.5m. The main programmes under implementation in Barbados come from two instruments, the 9th European Development Fund (EDF) and the Accompanying Measures on Sugar Protocol (AMSP). In Barbados, forthcoming programmes which will utilise budget support as a delivery mechanism include the € 8,330,000 10EDF allocation, the € 6,252,000 AMSP 2009 allocation, and the € 7,200,000 AMSP 2010 allocation, all for purposes of skills development; as well as the AMSP 2011-2013 allocation in support of the National Adaptation Strategy.

Public Financial Management and the PEFA Methodology

The analysis of Public Financial Management (PFM) and the monitoring of possible reforms in this area is one of the key components of the Commission's budget support programmes, general or sectoral. The Public Expenditure and Financial Accountability (PEFA) Programme was developed by the EC and the World Bank in December 2001 and later joined by other donors including the IMF. The objectives of the programme were: (i) to promote awareness of the importance of public finance management for development in the context of the increasing usage of budget support, and (ii) reduce the multiplicity of different instruments being used to assess PFM.

In 2005, the PEFA secretariat developed a detailed tool for the analysis of PFM, which includes a detailed external diagnosis of a country's PFM, a country-led reform agenda and a coordinated programme of institutional support on the basis of the action plan prepared by the national authorities. The three components are closely connected. It is important to note that in order to encourage partner country ownership of the reform process the external diagnosis does not include any recommendation or action plan.

The core of PEFA consists of the analysis of the indicators⁴ which are referred to as "high level" because they cover the six essential dimensions to be analysed in an evaluation of public financial management. These dimensions are:

1. *The credibility of the budget* - the budget is realistic and implemented as intended;
2. *Comprehensiveness and transparency* - the budget and the fiscal risk oversight are comprehensive and fiscal and budget information is accessible to the public;
3. *Policy-based budgeting* - the budget is prepared with due regard to government policy;
4. *Predictability and control in budget execution* - the budget is implemented in an orderly and predictable manner and there are arrangements for the exercise of control and stewardship in the use of public funds;
5. *Accountancy, recording, and reporting* – adequate records and information are produced, maintained, and disseminated to meet decision-making control, management and reporting purposes; and
6. *External scrutiny and audit* – arrangements for scrutiny of public finances and follow up by the executive are operating.

The PEFA evaluation is an *external* validation exercise which requires a *strong implication of the recipient country*. In this regard, the PEFA report is not co-written with the partner country nor for that matter, are the scores on the indicators negotiated.

It is important to note that there is *no automatic link between the scoring and eligibility to budget support*. As regards the criteria applied to public financial management, the Commission's decision is based not only on changes in the performance of the PFM system, but also on the political will of the Government to reform these systems, on the design of the reforms, and on their implementation. In other terms the conclusions drawn from the *Public Financial Management – Performance Measurement Framework (PFM/PMF)* constitute an important element, necessary but not sufficient to determine the eligibility of the partner country to budget support. Apart from public financial management, other criteria are taken into account such as, the macroeconomic situation, the existence of national policies (such as a poverty reduction strategy) and sectoral policies.

The rationale for carrying out a PEFA assessment

In the short-term - the PEFA assessment is to be used as baseline data, and a basis for information and monitoring so as to: (i) facilitate and update the dialogue on PFM between the Government and the EU (other donors also); and, (ii) assist the EU (and other donors) in assessing the eligibility of a country for budget support programmes, or to verify whether general or specific PFM conditions of an ongoing budget support programme are met.

In the medium-term - the PEFA assessment should provide the basis for: (i) the preparation of a PFM reform strategy (and related action plan); and, (ii) the preparation or revision of a PFM capacity development programme.

Objectives of the Study

⁴ There are three additional indicators looking at donor practices.

The objectives of the assessment mission are to:

- a) Draft a comprehensive Public Financial Management- Performance Report (PFM-PR) prepared according to the PEFA methodology (See next section, bullets 1-3 below), so as to provide an analysis of overall performance of the PFM systems in Barbados, as well as identify its strengths and weaknesses and provide an indication of how the Government of Barbados (GoB) various actions of PFM reform contribute to improvements. The PFM-PR will also provide (ideally supported by a table to be included in the report) a comparison between the baseline situation according to the 2006 assessment and the results of the present assessment indicating the evolution of ratings (either improved, deteriorated, or unchanged), and describing the nature and extent of change or lack thereof (ideally at indicator dimension level);
- b) Build the capacity of the GoB and the EU Delegation in the area of PFM Assessment.

Key Issues to be studied

The study will examine and assess the PFM system of the GoB on the basis of the PEFA methodology. The mission will identify the salient features of the GoB's PFM system, the existing state of affairs, the potential areas of improvement and whether there is any need for additional work in terms of diagnostic and/or measurement of progress.

The consultancy will strictly follow the PEFA methodology detailed on the following website: www.pefa.org. The consultant will analyse the following points, which, for indicative purpose, summarise broadly the indicators reported in the Performance Measurement Framework of the PEFA:

1. Credibility of the budget: is the budget realistic and implemented as intended?

- 1.1 Compare the total expenditure of the budget of the previous year with the original budgeted total expenditure.
- 1.2 Check if the composition of expenditures of the previous year's budget has been respected against the originally planned budget by Ministries.
- 1.3 Compare the total revenue of the budget of the previous year with the originally planned budgeted total revenue.
- 1.4 Assess the stock and monitoring of expenditure payment arrears in the previous year's budget and the reliability and completeness of the data on stock.

2. *Comprehensiveness and Transparency*

- 2.1 Check if the classification of the budget is linked with administrative, economic, functional and programmatic dimensions and priorities of the country.
- 2.2 Check if the annual budget documentation is complete and gives an entire picture of the government central forecasts (revenue and expenditure).
- 2.3 Assess the level of extra budgetary expenditure which is unreported i.e. not included in fiscal reports.

- 2.4 Evaluate if all transfers from central government to sub-national governments are determined by transparent and ruled based systems; assess also the timeliness of information to SN (sub-national) government and the reporting channel and procedure.
- 2.5 Assess to which extend the central government has the capacity to monitor the autonomous government agencies and public enterprises including their fiscal position.
- 2.6 Measure the accessibility to the general public or interest groups to key fiscal information and position and performance of the government.

3. Budget Cycle

3.1 Policy Based Budgeting

- 3.1.1 Verify if minimum requirements are implemented, such as existence and adherence to a fixed budget calendar; guidance on preparation of budget submissions, and timely budget approved by the parliament/legislator.
- 3.1.2 Check if there is a multiyear fiscal forecast regarding recurrent and investment expenditures based on sector strategy documents

3.2 Predictability and Control in Budget Execution

- 3.2.1 Verify if legislation and procedures for all major taxes are clear and easily accessible and if a tax appeal system is set up.
- 3.2.1 Check if a taxpayer registration system is effective as well as penalties in case of non-compliance with registration and tax declaration.
- 3.2.3 Check if the Ministry of Finance is able to report on tax assessments, collections, arrears and transfers in order to ensure that the collection system functions, that tax arrears are monitored, and the revenue float is minimised.
- 3.2.4 Concerning execution of budget and availability of funds: assess to what extent cash flows are forecasted and monitored; assess frequency and transparency of adjustments to budget allocations.
- 3.2.5 Measure quality of debt data recording and reporting as well as consolidation of the government's cash balances.
- 3.2.6 Determine the degree of integration and reconciliation between personnel records and payroll data for public servants; assess internal controls.
- 3.2.7 Concerning public procurement: show if there is evidence of use of competitive procurement methods.
- 3.2.8 Assess the effectiveness of internal control systems on expenditure commitments and check the comprehensiveness of other internal control systems.
- 3.2.9 Verify if internal audit is operational for all central government entities, and generally meet professional standards.

3.3 Accounting, Recording, and Reporting

- 3.3.1 Give your opinion on regularity of bank reconciliations for all central government bank accounts (carried out at least monthly).

- 3.3.2 Examine the availability of information on resources received by service delivery Units (in particular relevant for schools and health services across the country).
- 3.3.3. Check if the in-year budget report allows direct comparison to the original budget; check the quality of information and timeliness of reports.
- 3.3.4 Verify if the country issues consolidated year-end financial statements which includes full information on revenue, expenditure and financial assets.

3.4 External Scrutiny and Audit

- 3.4.1 Provide information on the scope/nature of external audit performed, timeliness of submission of audit reports to the Parliament.
- 3.4.2 Verify the scope of legislature's scrutiny and if procedures for budget review are firmly established and respected.
- 3.4.3 Verify if audit reports are scrutinised by the legislator/Parliament on a regular basis and if there is issuance of recommended actions by the legislator/Parliament.

The analysis will also provide a comparison between the current assessment and the 2006 one; including an explanation of reasons justifying the change in scores, or, absent change in scores, an explanation of reasons justifying the absence of change.

B. METHODOLOGY AND WORK PLAN

The consultant is requested to provide a brief technical proposal (max. 5 pages) which demonstrates its understanding of the assignment and the methodology and provides a general outline of its proposed work plan to achieve the desired results. The technical proposal must accompany the two curriculum vitae.

Within the proposed work plan the Experts should allow for three (3) phases:

Preparatory phase

- A desk study of recent PFM assessments of Barbados using all the basic documents from the PEFA website (www.pefa.org), as well as from the relevant departments within the GoB, including the Auditor General's department. The desk study will be undertaken from the Experts' home base. This covers a period of six (6) man-days (3 per expert).

Field work and preparation of draft final report

- Briefing meeting with the EU Delegation representatives in Barbados and other interested donors;
- Field work in Barbados including ***Workshop #1***: this first workshop will be conducted with policy makers and technical staff from the relevant Government agencies and departments (Ministry of Finance, auditor general, accountant general, contractor general etc.) to present the PEFA methodology and what will the focus of the experts' analysis be. At the end of this first mission, the experts are expected to submit a draft report and return to their home base;

- The two experts will return to Barbados shortly thereafter in order to complete the field work and conduct a **Workshop #2**: This second workshop will focus on the detailed conclusions of draft final report.

Finalisation of the report

- Following the return to the home base of the consultants after this second workshop, stakeholders will have four weeks to submit written comments. Following the end of this period, the consultants will, from their home base, complete and submit the final report incorporating and/or addressing each comment previously made.

C. LOCATION AND DURATION OF THE ASSIGNMENT

The overall input for the assignment is estimated at 66 working days (33 days per expert) over a 4-month period.

Of this total, 4 man-days are assigned to desk study in the experts' home country (2 per expert), 40 man-days will be assigned in Barbados in the first mission (20 per expert) and another 8 man-days (4 per expert) during the second mission, 8 man-days for international travel (4 per expert) and a further 6 man-days in the experts' home country (3 per expert) to complete the Final Report. The Experts are invited to work five (5) days per week while in Barbados.

The mobilisation period is suggested at 21 calendar days from the award of contract. The suggested starting date is **3 May 2010**. The assignment will have to be completed by **31 August 2010**.

D. EXPERTISE REQUIRED

One (Senior Category) Expert – 33 working days

- The individual must possess a degree in economics, or any other related discipline with post-graduate degree (s) and/or other relevant professional qualification(s) being an advantage.
- The expert must be a public finance specialist with at least ten (10) years international experience in public budgeting and/or public sector auditing, with demonstrable experience working in a developing country context.
- Demonstrable experience in conducting PFM assessments according to the Performance Measurement Framework of the PEFA is mandatory.

The expert must be fluent in English (written and spoken).

One (Senior Category) Expert – 33 working days

- The individual must possess a degree in economics, or any other related discipline with post-graduate degree (s) and/or other relevant professional qualification(s) being an advantage.

- The expert must be a public finance specialist with at least ten (10) years international experience in public budgeting and/or public sector auditing, with demonstrable experience working in a developing country context.
- Demonstrable experience in conducting PFM assessments according to the Performance Measurement Framework of the PEFA is preferable.

The expert must be fluent in English (written and spoken).

The team should demonstrate a combined set of skills in all areas relevant to carry out the assessment.

E. REPORTING

The Reports must be submitted in English according to the following timetable (See also Section IV).

Technical Proposal

To be submitted with the two curriculum vitae as a part of the application package.

Desk Study/ Inception Report

By the end of the first mission, the experts will submit (in electronic format) to the NAO/Contracting Authority and EC Delegation in Barbados a first draft report containing the main findings of the mission to date as well as a request for any additional information that may be needed to complete the assignment.

The GoB and EU Delegation may submit some comments following the submission of the first draft report.

Draft Final Report

Before the second workshop, the experts will submit the draft final report (also in electronic format). The content of this report will be presented at this workshop to which other donors involved in Public Financial Management in Barbados will be invited.

The GoB, EU Delegation or other donors may submit written comments within 3 weeks following the submission of the draft final report.

Final Report

Following this three-week hiatus, the Experts will have 6 more days from their home base (3 days each) to submit the final report incorporating and/or addressing each comment previously made (three originals in hard copy – one for the EC Delegation and two for the NAO - and also electronically). The eventual comments of the NAO/Contracting Authority and of the EU Delegation may be attached in an annex to the final report.

PRELIMINARY IMPLEMENTATION SCHEDULE

The activity schedule for the assignment is foreseen as follows:

Indicative time schedule (working days)	Simultaneous Activity Description (for both experts)
Days 1-2	Desk Study (home base)
Day 3	International Travel (Home Base - Barbados)
Day 4	Briefing in Barbados (EC DEL/Donors)
Day 4	1 st Workshop – Introduction and presentation of the methodology to Government and interested donors
Day 5-21	Field work in Barbados – key meetings, data collection, analysis, drafting and submission of 1 st draft final report
Day 22	International Travel (Barbados - Home Base)
<i>Approx 2 weeks break Submission of additional information by GoB</i>	
Day 23	International Travel (Home Base – Barbados)
Day 24-28	Final field work, completion of Draft Final Report and submission to the GoB and stakeholders
Day 29	Workshop Nb. 2 – Presentation of Draft Final Report to the GoB, EU Delegation representatives and other interested donors
Day 30	International Travel (Barbados – Home Base)
<i>Approx three weeks break Submission of written comments from stakeholders</i>	
31-33	Write up and submission of final report (home base)

Written comments by the NAO and the EC Delegation on the draft final report will be sent to the Experts within 3 weeks of its submission.

ANNEX 1 ASSESSMENT OF PUBLIC FINANCE MANAGEMENT IN BARBADOS

PEFA Assessment 2006

The latest PEFA assessment undertaken in Barbados was conducted in 2006. The summary of the findings of such report follows. The full report will be made available to the selected team of consultants.

15. 1. Assessment of performance

The analysis has been carried out for the period 2003 to 2006⁵ based on a review of a wide range of documentation, publicly available accounts and reports, interviews with a large number of stakeholders as well as relevant websites and information on the Government's intranet.

The 2003 assessment of PFM which was carried out prior to the disbursement of budget support noted that PFM in Barbados was generally sound. This assessment, for the purposes of: i) continued eligibility for budget support under the Cotonou Agreement; ii) subsequent disbursement of the 9th EDF NIP Sector Budget Support and; iii) potential eligibility for 10th EDF budget support, would concur with that assessment. Ongoing activities are also aimed at improving the situation, although there will not yet be a clear impact on the scores. A descriptive summary of the key findings is set out in the following paragraphs.

16. 2. Credibility of the budget

On the basis of original estimates, the budget is a credible predictor of actual expenditure. Revised budgets show greater variance. This appears to be the result of a number of factors including contractual delays and poor contract management, late supplementary estimates and delays in donor re-imburement. Arrears are not a major problem.

3. Comprehensiveness and transparency

Information contained in budget documentation is fairly comprehensive, although macro economic data and the implications of new policies are not included. There is no Freedom of Information Act, but technically information on estimates, audit reports and government accounts should be available as public documents. However ease of access, format and relevance are issues of concern as well as public demand. Unreported government operations⁶ as a result of extra budgetary fund activity has been high in the past (6% of GDP)⁷, but has fallen in the last couple of years.

⁵ Accounts used for analysis are for the periods 2002/3, 2003/4 and 2004/5. The accounts for 2005/6 have been prepared and are currently being printed. The accounts will be publicly available once they have been lodged with the House of Assembly by the Minister of Finance.

⁶ A major part of extra budgetary expenditure has been funded by the proceeds of privatisation of the BNB and Insurance company.

⁷ Article iv consultations 2005

Information on Statutory Boards/ Corporations and government owned companies is incomplete, all entities do not prepare financial statements for audit and/or parliamentary review and consequently there is no consolidated and complete overview of fiscal risk.

4. Policy-based budgeting

Since 2003, the budget has become a more orderly process with the distribution of a clear timetable. Although the Cabinet is not involved until the end of the process, the Prime Minister is also the Minister of Finance and he is involved from an early stage of the process.

Since 2003, the GoB has introduced multiyear budgeting; however, this has only been done on a pilot basis. Consequently, there is no multiyear perspective in the Estimates presented to the legislature, and no clear linkage between policy changes and impact on expenditure. Since the previous assessment, there is a greater emphasis on the presentation of performance related information in the budget submissions, although it is recognised that the quality of this information varies between ministries.

5. Predictability and control in budget execution

Tax payers' liabilities are reasonably clear and transparent, although information is not up to date for all taxes and information media. Some tax legislation is also being updated. The effectiveness of taxpayer registration measures could be improved as there are several databases and information sharing is limited. Arrears are significant for both tax and non tax revenue, despite a "moratorium" there remains a core of non payers.

Quarterly allocations mean that resources are provided in a fairly, consistent and predictable way. All procurement for ministries and departments is carried out by a central purchasing department and there are clear and well defined administrative procedures. However there is no requirement for the reporting or monitoring on the actual use of open competition within central government or across the whole public sector. There is also no procurement appeals process other than the court system.

Payroll controls are good, there are some concerns over compliance with some of the detailed financial rules and procedures for other non salary controls; however these do not affect data integrity. Some regulations are rather outdated, whilst others e.g. lack of virement have an adverse effect on service delivery.

6. Accounting, recording and reporting

Currently, the GoB produces a comprehensive set of annual financial statements and monthly reports in a timely and consistent manner on a cash basis using Smart Stream financial management software. Treasury managed bank accounts are reconciled on a regular basis. Since the 2003 assessment, the GoB has embarked upon a major cash to accrual project which is due to be implemented for central government on 1st April 2007.

Financial statements will then be produced on the basis of International Public Sector Accounting Standards.

7. External scrutiny and audit

Although the operations of the Auditor General's office are constrained by the current skill mix, reports are produced broadly within the legal nine month timescale and are well presented highlighting key issues in a concise and informative way, response by auditee is mixed. According to the Financial Administration and Audit Act, the Auditor General (Aud Gen) has the responsibility for auditing all Statutory Boards/ Corporations. However, enabling legislation for some of the Statutory Boards allow the Board of Directors to choose private sector auditors with no reference to the Aud Gen.

Legislature's involvement in the budgetary process is limited by strict time constraints and the non use of specialised committees. Since the last assessment, the Public Accounts Committee legislation setting out the mandate and membership of the Committee has been enacted. However, procedural difficulties (lack of a quorum) and legal disputes have meant that it has not been carrying out its accountability function. It has not met since March 2005.

8. Donor practices

Barbados is no longer eligible for funding from the World Bank⁸ and most Bilaterals do not provide bilateral assistance. Barbados does benefit from regional initiatives supported by Bilaterals, UN, EC, OAS, primarily in the form of technical assistance and aid in kind. In recent years, loans have been provided by the IDB, CDB, and the EIB. The EC is the only donor providing budget support. Most other funding is provided to GoB on a reimbursement basis and requires the use of donor specific procedures e.g. procurement, reporting, banking and audit.

17. 9. Assessment of the current strengths and weaknesses and their impact on PFM

Strengths and weaknesses in PFM have a direct impact on the budgetary outcomes of aggregate fiscal discipline, strategic allocation of resources and efficient service delivery. At a central government level, the fact that the budget is credible means that agreed services can be delivered and resources are not re- allocated to non priority items. The GoB maintains a tight control on the government's finances particularly for the central government ministries and departments. However, excessive control which leads to the requirement for numerous supplementary estimates has an adverse effect on efficient service delivery.

Accurate and timely year end and monthly accounts provide a sound basis for decision making, and thus for sound strategic allocation and service planning and management. It also provides the basis for the development of a multiyear perspective and more

⁸ A concession was made with respect to funds for HIV/Aids because of the high incidence of Aids in the Caribbean region.

ANNEX 3**BARBADOS PEFA****List of Documents consulted**

Barbados Constitution (Barbados Independence Order, 30 November 1966)
Financial Management and Audit Act (2007)
Public Accounts Committee Act (2003)
Financial Administration and Audit (Financial) Rules (1971)
Financial Management and Audit (Supplies) Rules (1971)
Director of Finance, Instructions to Ministries on financial administration (2007)
Public Service Act (2010)
Civil Establishment (Qualifications) Rules (2006)
Estimates presented to Parliament 2006-07, 2007-08, 2008-09, 2009-10, 2010-11
Schedule of Personal Emoluments (attached to Estimates), 2010-11
Financial Statements (by Accountant-General) for 2006-07, 2007-08, 2008-09
Auditor-General's Annual Reports, 2006-07, 2007-08, 2008-09
Barbados Audit Office
 Special Report on Road Network Infrastructure Improvement Project, 2009
 Special Report on National Housing Corporation, 2009
National Insurance Scheme, Annual Report, 2008
National Insurance Fund, Report of Audit of Accounts for 2001 and 2002
National Insurance Fund, (unaudited) Financial Statements for 2009
Medium Term Fiscal Strategy (Ministry of Finance, January 2010)
Medium Term Development Strategy, 2010-14 (2009)
Barbados Socio-Economic Data 2009, vol.2
Barbados PEFA Report, November 2006 and updates August 2007 and August 2008
Economist Intelligence Unit
 Barbados Country Profile 2008
 Country Reports, December
Government of Barbados, Compliance Report for Release of First Tranche of Funds
 under Annual Action Programme 2008 for Sugar Protocol Countries
Queen Elizabeth Hospital, Estimates Summary for 2010-11
Accountant-General's Monthly Financial Statements for Sept 2008 and Nov 2009
Ministry of Finance, Review of Financial Rules, PowerPoint presentation July 2009

BARBADOS PEFA**List of people met**

Mr Seibert Frederick, Manager PIU (MoF0)
Ms Cheryl Morris-Skeete, Chief Project Analyst, PIU (MoF)
Mr Rodney Payne, Chief Project Analyst, PIU (MoF)
Ms Sherry Waithe, Senior Project Analyst, PIU (MoF)
Ms Faye Prescod, Chief Budget Analyst, Budget Dept (MoF)
Mr Leigh Trotman, Auditor-General, Barbados Audit Office
Mr Patrick McCaskie, Director of Economics, Min of Econ Affairs
Mr Derek Gibbs, Chief Economist, Min of Econ Affairs
Ms Annette Weekes, Director, VAT Unit, Customs and Excise Dept (MoF)
Ms Margaret Sivers, Accountant-General (MoF)
Ms Kathleen Brewster, Senior Internal Auditor, Acc-Gen. Dept (MoF)
Mr Clyde Masun, Internal Auditor, Acc-Gen Dept (MoF)
Ms Margaret Sealy, Corporate Tax Section, Ernst & Young
Mr Michael Harewood, Partner (Taxation) Deloitte & Touche
Mr Dwayne Stuart, Financial Controller, Min of Agriculture
Ms Sonia Jones, Chief Purchasing Officer (MoF)
Mr Edward Pounder, Senior Accountant, Supplies Office (MoF)
Dr Kevin Greenidge, Director, Research Dept., Central Bank of Barbados
Mr Anton Belgrave, Senior Economist, Central Bank of Barbados
Ms Sheryl Peter-Gooding, Chief Statistics and Information Analyst, CBB
Mr Frank Holder, Controller, Customs and Excise Dept (MoF)
Ms Hazel Gittens, Deputy Controller, Customs and Excise Dept (MoF)
Ms Sheryl Carter-Duke, Chief Internal Auditor, Customs and Excise Dept (MoF)
Ms Avonda Bourne-Carrington, Director, Management Accounting Unit (MoF)
Mr Anderson Padmore, Deputy Controller, Inland Revenue Dept (MoF)
Ms Sheryl Rogers, Senior Accountant, Inland Revenue Dept (MoF)
Mr Roderick Rudder, Senior Education Planning Officer, Min of Education
Mr David Strickland, Finance Officer, Ministry of Education
Mr Paul Murphy, Programme Director, Education Sector Enhancement, Min of Ed
Mr Richard Harrison, Project Manager, Min of Education
Ms Cheryl White, Senior Accountant, Min of Education
Ms Winifred Harewood, Financial Controller, Ministry of Health
Mr Samuel Dean, Chief Health Service Planner, Ministry of Health
Mr Danny Gill, Director of Planning, Ministry of Health
Mr Almroth Williams, Deputy Director, National Insurance Scheme
Mr Wilfred Jones, Investment Manager, National Insurance Scheme
Ms Jennifer Hunt, Financial Controller, National Insurance Scheme
Mr Michael Archer, Director, Office of Public Sector Reform (Min of Civil Service)
Mr Haseley Straughn, Management Devt Officer, Office of Public Sector Reform
Ms Marcina Springer, Financial Controller, Ministry of Transport and Works
Mr Ron Blades, Accountant, Ministry of Transport and Works
Ms Marguerite Jones, Acting Chief Personnel Officer, Min of Civil Service
Ms Margaret Mayers, Acting Deputy Chief Personnel Officer, Min of Civil Service